★ MARKET DISCOUNTING HEAVY SPENDING ★

The MAGAZINE of WALL STREET
and BUSINESS ANALYST

AUGUST 26, 1961 — 85 CENTS

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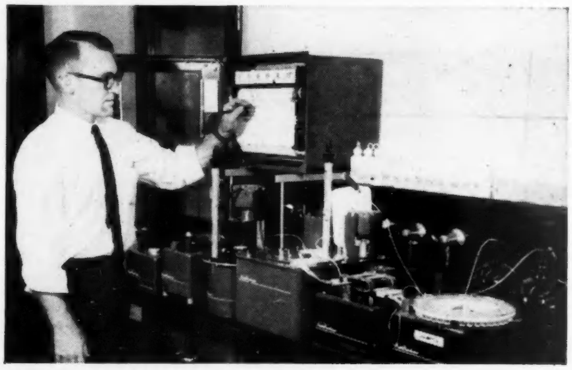
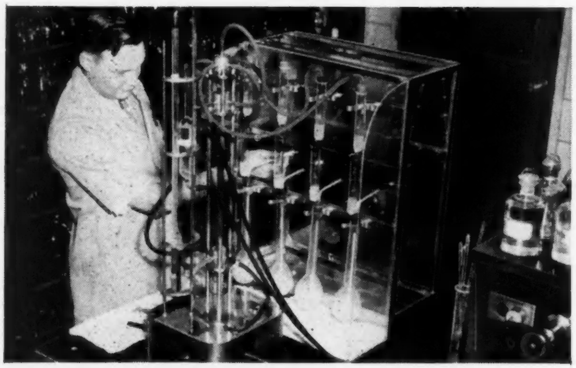
Smoking Out Tobacco's Secrets

Few plants have kept their biochemical secrets as well as tobacco. But investigations with ultramodern research methods are helping The American Tobacco Company pace the industry in developing the "science of tobacco."

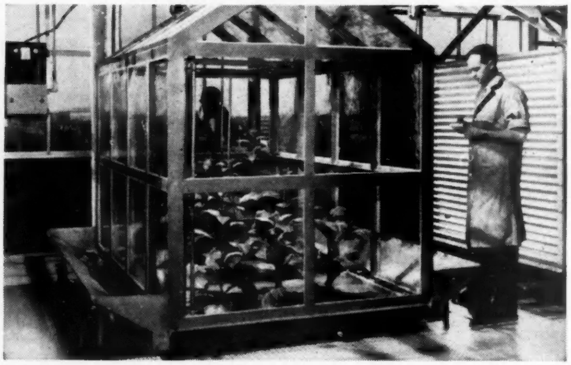
SOLVING TOBACCO'S GROWING PAINS. By collaborating with State and Federal Experiment Stations, American Tobacco is helping to push back the old frontiers. There is a revolution in the production of tobacco—new varieties, new cultural practices—new curing methods. American evaluates them all to improve its products.



UNLOCKING CHEMISTRY'S PUZZLE. American Tobacco has created and adapted numerous devices that increase the scope and precision of tobacco analysis. Typical of these is the Auto-Analyzer, recently adapted to the rapid and accurate determination of nicotine and sugar in tobacco and tobacco products.



STUDYING WHAT GOES UP IN SMOKE. For 50 years, American Tobacco researchers have been studying tobacco smoke. Today its chemical complexities are yielding to devices like this smoking machine, developed in our laboratories. Spectrometry and chromatography also help isolate these elusive components.

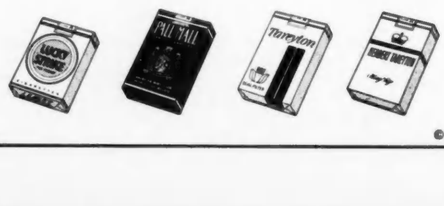


EXPLORING WITH ISOTOPES. By growing tobacco in radioactive nutriculture chambers like this, we obtain plants containing carbon 14 and/or tritium, excellent tracing elements. Counting systems and scalers in our Radiological Laboratory can then track down these elements and further analyze the components of tobacco and its smoke.

SHARING SCIENTIFIC DISCOVERIES. More than 25 years ago, The American Tobacco Company, recognizing the industry's need for greater knowledge in the field, initiated a continuing program of biological research in leading medical schools. The results have been published for the benefit of everyone interested in tobacco science.

The American Tobacco Company

FIRST IN CIGARETTE RESEARCH



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Cover photo of oil drilling crew—Courtesy of American Petroleum Institute

Charts, pages 620 and 621—Adapted from N.Y. Times
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THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*

The Trend of Events

800% RISE IN EXPORTS TO RED BLOC . . . In the three weeks since President Kennedy's speech on Berlin, U. S. goods licensed for shipment to Communist countries increased from $750,196 to $6,278,566, or 800%.

Under the circumstances, this will come as quite a shock to the American people, particularly when they learn that while action has been taken to stop this flow of American goods to the Communist countries, no change has yet been made in the export control regulations which makes this possible.

Aware of the acute shortage behind the Iron Curtain, and how effective an embargo would be at this particular time, there is bound to be considerable questioning by the public regarding this situation, for during the last few weeks the whole temper of the American people has greatly changed toward the entire question of any kind of trade with Russia and her satellites.

Are we to assume this is another form of appeasement, or is it merely the fault of the various levels of bureaucracy, who have ignored the changes and have not asked for new instructions to meet the new circumstances?

Members of Congress, greatly concerned by this situation, are now favoring legislation to put a halt to this unrealistic attitude toward East-West trade.

In some quarters of the Administration there is a hesitation toward the taking of retaliatory steps against the Soviet Union, something that Khrushchev is counting on when he takes an adamant posture in dealing with the United States. The weaker his position, the firmer he stands. So weak in fact is his position in Berlin that he has dispatched emissaries to the various Asian states to explain his brink-of-war moves.

At the same time, he is trying to divide the allies by encouraging pro-Communist elements to interfere in the affairs of countries in which we have bases — and threatening destruction if they refuse — all in an effort to make them believe that Russia will be the victor should a hot war result, and that self-preservation calls for their neutrality.

The Soviet Union has grown so franctic in its attempt to "bury" us that Khrushchev acts as though he already controls the world. And this is beginning to boomerang against him, as it did in Japan, when Mikoyan set himself up as arbiter of the U.S. Japanese treaty, where he was quickly slapped down by both the government and the press of the country.

In the Argentine the people were so incensed over the two-hour discussion President Frondizi had with Cuba's Guevara and fearful of a deal, that Frondizi was obliged to go on television to tell the people that he had yielded nothing to either Castro or the Communists.

However, as far as the rest of South America is concerned, it will take strong action by the United States to win its confidence and adherence, despite the $200 billion Fund. END

THIS is a special edition of the *Berliner Illustrirte* for the United States. Two hundred thousand copies are being mailed to leaders in all walks of American life. It is our message of friendship, a renewed Berlin pledge in the cause of liberty. This is the first edition of the *Berliner Illustrirte* in many long years. The magazine first appeared on the streets of Berlin in 1890, produced by the House of Ullstein. In 1933 the Nazis seized the B.I. and made it an instrument of Hitler's brown tyranny over Europe.

Today, with the red banner flying over the Brandenburg Gate, where once again peace and freedom in the world are at stake, we do not choose silence. The Soviets and their German puppets desire to split our country forever, to make Berlin the Red Capital of Europe. They are well aware that whoever rules in Berlin will, one day rule all Germany.

We Berliners know that we cannot defend Berlin with sweat and printer's ink alone. But we are proud of our right of freedom of speech, today above all when tyrants in this same city wish to strangle us into silence.

For this reason the re-born House of Ullstein produces this special edition, and we send it to people who have already proved they are our friends. This is both the story of Berlin, and our way of expressing gratitude to all in the free world who have remained true to us.

HOUSE OF ULLSTEIN

Reprint of President Kennedy's January 1961 message is as follows:

The new President of the United States
John F. Kennedy sends
the **Berliner Illustrirte** this
message for the people of Berlin

The world must know that we will fight for Berlin. We will never permit that city to fall under communist influence. We are defending the freedom of Paris and New York when we stand up for freedom in Berlin.
A strong stand in Berlin and a strong American policy vis-a-vis Moscow are the two essential elements needed to restore the unity of Germany.

As I See It!

By CHARLES BENEDICT

KENNEDY CANNOT AFFORD TO MUFF THE PLAY THIS TIME

THE head-on challenge we face in Berlin must be solved if this nation is to win back even a modicum of the prestige we enjoyed when Mr. Kennedy came to office.

After the performance in Laos, which cost us our influence in Asia — and the fiasco in Cuba, that hurt us deeply in Latin-America — the prestige of the United States was almost obliterated around the world.

The first indication of the low esteem in which Khrushchev held our new Administration was evident in Austria, when he condescendingly handed Mr. Kennedy a list of belittling demands and threats, and turned what was to be a "get acquainted" meeting into an unannounced Summit Conference. And yet the President, fresh from the grandeur of his reception in Paris, was thoroughly shocked by this experience for he had expected to bowl Khrushchev over. He apparently failed to realize that Cuba and Laos had been tests of his stature.

This was particularly surprising, for President Kennedy, when electioneering, had kept hammering away on the mistakes made by the previous Administration, which he claimed had lowered our prestige. And he vowed that if elected he would raise it to its former eminence.

Instead, he has shown an amazing bewilderment about taking the steps necessary to meet each challenge as it arose, so that respect for the United States has been completely shattered. In the face of each new crisis he has met the situation largely with words and demands on Congress for more money, and has failed to take the decisive steps that characterize true leadership — the kind of leadership we are looking for from our Commander-in-Chief — and of the quality that would inspire the country to rally to his support.

The great battles of history were not won by weapons or billions of dollars — but by men of wit whose courage enabled them to overcome formidable foes through understanding, and by strik-

ing at the weaknesses that always show up under the exercise of inordinate power, such as Khrushchev controls.

That our prestige is nill today — was clearly demonstrated in Montevideo, where our offer of $20 billion in aid — a fantastic sum — failed to win agreement to our demands for a provision calling for honest and periodic elections. And to add insult to injury, this Peruvian supported political proposal was killed by the delegates in private huddles to please the Cubans, who had objected to the phrase.

And, if this were not enough, Cuba's Major Guevara, had the temerity to ask for a share in the billions of dollars the United States had appropriated for Latin America. And when this brazen effort failed, Guevara using the well-known Red technique for getting a foot in the door, suggested inclusion of Communist economic advisers to administer President Kennedy's Progress Fund for Latin America!

It was then that the Soviet Union took hold, and backed Havana in an attempt to reopen trade relations with the United States, undoubtedly in an effort to cover up Russia's incapacity to cope with the food shortage in Cuba, and her inability to relieve the deteriorating economic situation which is plaguing the Havana regime.

Yet, in the face of such a resourceful enemy, there is hesitation in Washington regarding the application of economic sanctions against Cuba, so that doubt already exists that we will take advantage of the golden opportunity we have to show up Russia's inadequacy, — while a world, thoroughly disillusioned regarding our leadership looks on, and expects us once more to rely on words — words — words.

Is it any wonder that Khruschev has gone ahead with his plan for Berlin — and on his own terms?

And his judgment was sure, for we took no action where, instead of writing notes, we should have acted immediately to prevent the setting up of the barricades. But not having done so, we can now tear them down, on the ground that they had no right to erect then in the first place, since to do so was a direct violation of the legal treaty.

And now while we jitter, the Berlin situation is moving into areas that had not been contemplated by any of the parties involved, with ramifications which can have serious connotations for the future of Communism too, if we stand up to the Soviet Union, for the stakes involved are enormous.

Enter the Common Market

Khrushchev's timing of action in Berlin, months before it was expected, could readily have been influenced by Britain's recent bid to the European Common Market, where her membership, and collaboration with the United States and Canada, would have produced an economic-political alignmen in Europe, of a magnitude such as the Soviet Union would not care to contemplate. West Germany, with its efficient industrial complex, which Russia has been craving for a long time, would then be lost to her forever and her control of the satellite states from the Baltic down would be jeopardized.

In fact, Europeans are saying that it was recognition of the opportunities inherent in this political-economic alignment that was in the main responsible for the exodus from backward East Germany, and that Khrushchev's hand was forced, since he did not know how far this move could spread behind the Iron Curtain — in Poland — Hungary — and Czechoslovakia, — to what extent the assurance of freedom, jobs through high industrial activity, and cultural advantages would motivate a flow of refugees from Communism.

At the moment West Germany is boiling against us, and when one remembers that the antidote for disillusionment with the United States would be a deal with the Soviet Union, we can quickly recognize the dangers inherent in this situation to our status as a first-class power — where the devaluation of our dollar would bring a decline in our world financial and economic position.

Where Does Britain Stand?

Where is Britain in this picture — whose commercial rivalry with Germany has produced two wars, and whose policy on the Continent has always been to divide and rule? She clearly has been the key influence for negotiation, compromise and appeasement, and against action in dealing with the Soviet Union.

Already news from London tells us that Britain is now advising a change in the original firm stand regarding a Summit Meeting, and suggesting that the *West* take the initiative to bring one about in the near future. In fact, the three day delay in answering the Russians has already set the stage for a negotiated settlement in favor of Moscow. Failure to act against the Border's closing has created the impression that the Western Powers are prepared to give what amounts to unacknowledged defacto recognition to East Germany.

To the Berliners who took seriously the promise to defend their freedom made by President Kennedy after his inauguration, and reprinted herewith, it must be a jolting blow, for which generations of Germans will always blame the United States.

Furthermore, the United States will be relegated to being a satellite of Britain. From the unfriendly reception given to West Germany's President when he visited London, as well as the general acrimonious discussions involved in Britain's attempt to force Germany to give her a favored nation treatment in the Common Market, a definite impression is bound to be created that it is Britain who is ordering our affairs and not the President of the United States.

It has long been established that British interests are not the same as ours, and, judging by the violent criticism of the Yankees appearing in her press, they do not want our missiles — our armed forces — or any part of us — except when they are in trouble — and I do not believe she will stand by our side when the time come.

Historically, Britain will only take action when her own interests are concerned, as they were in Suez and recently in Kuwait. Only then will she forego note-sending and compromise, and resort to arms—as she did when she entered World War II, after Hitler had double crossed her in the deal for joint development of Russia to be undertaken after the war was over.

In Summary

The world is in too dangerous a position for another Munich sheltered *(Please turn to page 656)*

Market Discounting Heavy Spending

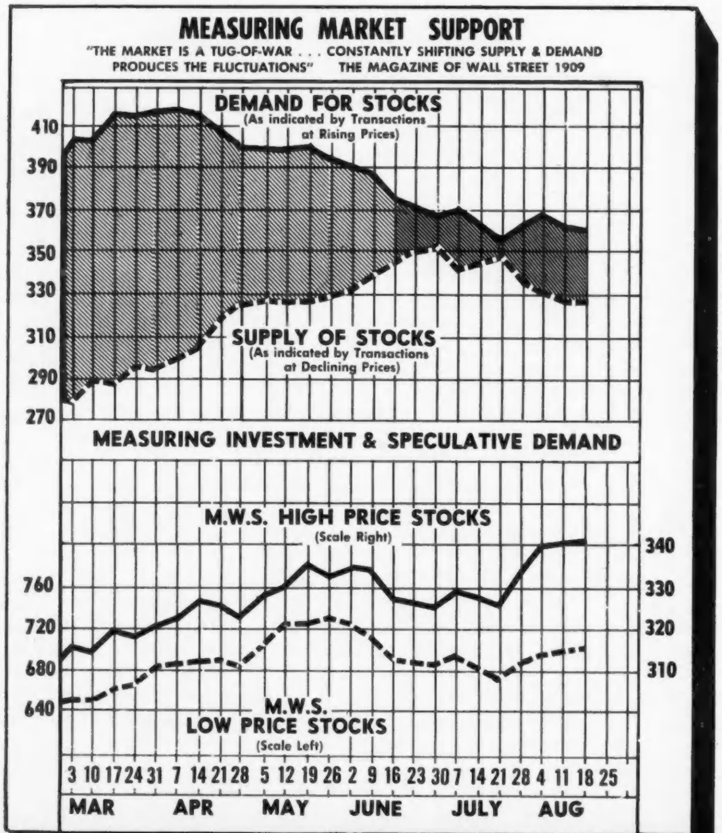
While the Berlin uncertainty and advanced stock valuations are on the restraining side, the prospect of Federal deficit spending and strong revival in business activity are on the stimulative side. The latter considerations appear dominant in present investment thinking, suggesting a basis for a further selective rise in stock prices.

By A. T. MILLER

INDIVIDUAL and institutional investors apparently remain more inclined to hold or buy stocks than to sell, but enthusiasm on the buying side at this time is more subdued than one would imagine from reading the professional-advisory predictions of the good times assumed to be ahead.

The net change in the industrial average over the last fortnight was slight, while utilities rose moderately and the rail performance, featured by a rally last week, was the best seen since mid-June. For perspective on the background, the Dow industrials went through a two-months' consolidation, including a retreat of roughly 27 points to the July 18 low point, followed by about a 43-point surge to the August 11 high of 722.61 and a fractional rise to 723.54 last week, amounting to a betterment of the mid-May high by less than 2.5%.

It can be argued that this additional advance in a short period of time created need for another consolidation and justified last week's narrow movement. However, the technical position could hardly be greatly weakened by so modest a net addition to the prior rise. Other considerations are the sobering Berlin uncertainty, which may hang over us for some months to come regardless of day-to-day variations in the news, and the fact that prices of so many stocks discount hoped-for gains in earnings so far "around the corner." This might require fairly frequent pauses or corrections, even though the business revival, the rise in defense outlays and the inflationary potentials of the Administration's loose fiscal policy are basically on the stimulative side.



Rails Getting Into Step?

So far as it goes, moderate improvement in market behavior of the long-laggard rail list is on the encouraging side. It would seem to be justified by prospects for at least partial recovery in recently depressed earnings as a result of rising industrial activity. The rail average remains well under its best May level and further under the recovery high of last March.

Even if it should rally enough to provide a "Dow-Theory confirmation" of the market's indicated upward trend, that would be nothing to get excited about. The market can and has gone far without help from rails. Reflecting basic change in the industry's status, the rail average stands about 37 points under its 1956 high and some 45 points under its 1929 top, while on the same comparisons the *gains* for the industrial average are roughly 262 points and 343 points, respectively.

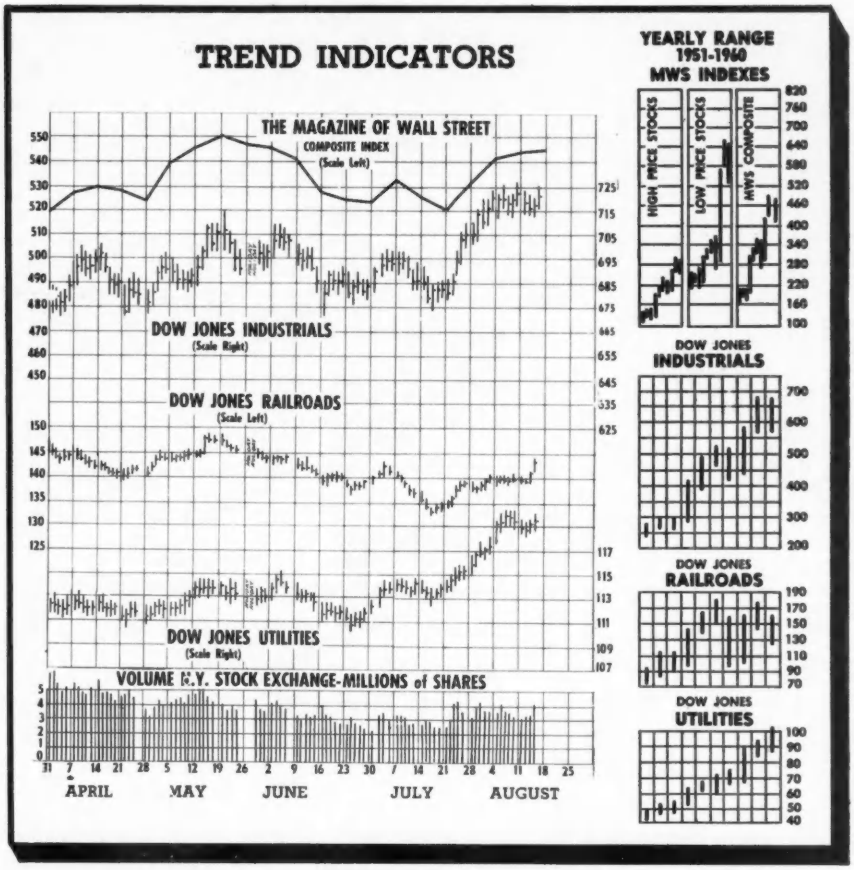
The principal technical indicators are more negative than bullish or bearish at the moment. Mainly reflecting less aggressive buying, the favorable demand-supply spread shown by our mar-

ket support measures (see chart herewith) narrowed about 6 points last week.

Despite some improvement late in the week, the number of declines in individual stocks during the period exceeded advances by 661 to 649. In the prior week, the score was 715 advances, 581 declines. In these terms, it was a market pretty much on the fence over the last fortnight.

However, the highs-and-lows indicator makes a better showing, with the ratio nearly three to one on the favorable side last week and much more sharply so in the two final trading sessions.

The short interest on the Big Board as of August 15 was down to 3.098 000 shares, the lowest figure in 13 months and off nearly 6% since mid-July. This is generally considered a somewhat unfavorable technical indication, while the reverse is so for the modest excess of selling over buying in the odd-lot operations in recent days.



To say that the quality of market leadership at present is good or that it is poor would be equally misleading generalizations. Many good-grade stocks are showing strength. On the other hand, there has been a considerable revival of speculation in low-priced stocks both on the Big Board and the American Exchange, as well as in the over-counter market. Thus, the Big-Board feature last week was a 50% rise in low-priced Studebaker-Packard of all things. Yet, on the whole, it can be said that the market is more sober in movement than on the Spring rise.

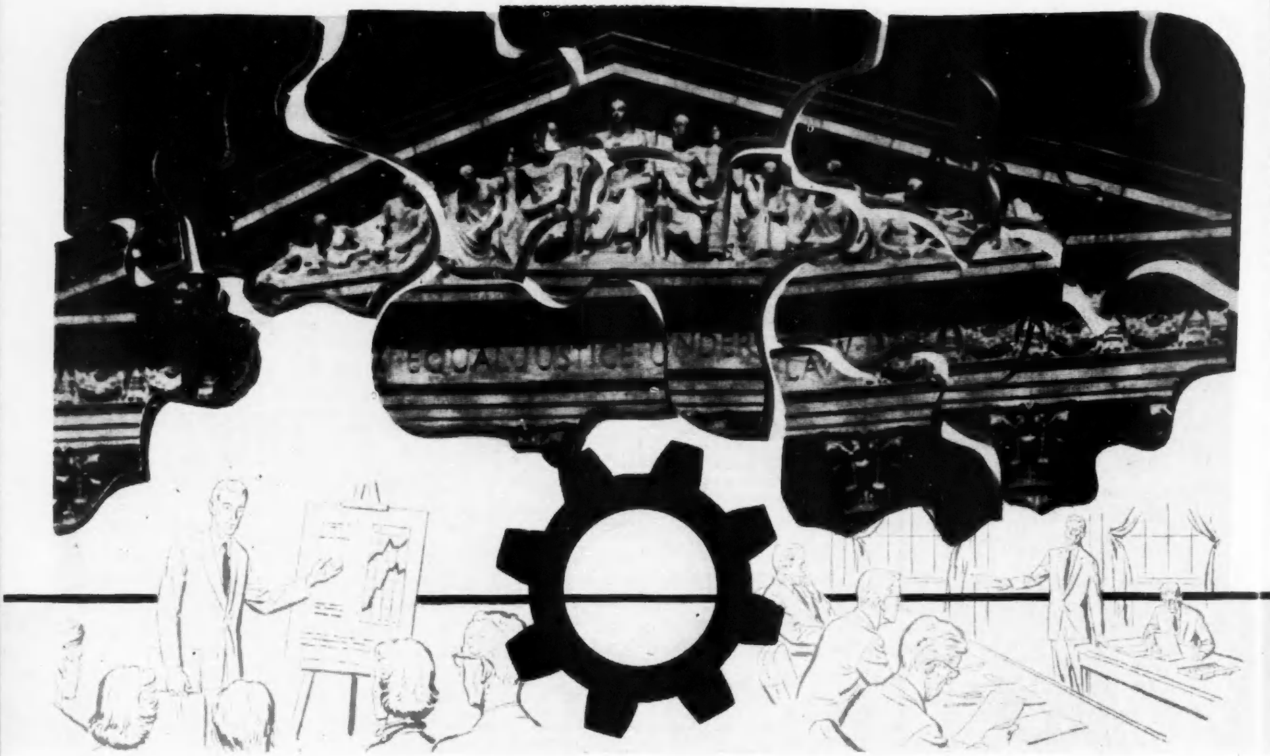
A basis for a further rise in average stock stocks, with the possibilities probably more moderate than dynamic, can be rationalized on two main counts: (1) Federal deficit spending and its inflationary potentials; (2) impressive business revival, promising a sharp gain in recent recession-level corporate profits over the next 12 months or more. Since these considerations are tied together, it is immaterial where one puts the emphasis.

The inflation potential is, of course, a debatable matter. Wholesale prices of industrial raw materials are depressed and no doubt will rise to some extent in business revival. Farm prices must respond to drought in the northwest. Yet, basically we have a situation of excess commodity supply and excess industrial capacity. Because this is so, the Eisenhower $12-billion deficit in the 1958-1959 fiscal year had little effect on prices. For reference, the forecast Kennedy deficit for the year begun July 1 is $7 billion or less. Barring war, the chances are that it will be much less, possibly even eliminated as officially promised, in the year starting next July 1.

There is no debate about the business revival. The Federal Reserve Board's production index reached a new peak in July, thus more than making up the mild 13-month recession in five months. It did so under leadership of consumer goods. It did so with outlays for equipment (including defense), housing activity, steel output and automobile output all well under best earlier levels.

It follows that, when the latter segments of the economy get rolling and when the Administration's added $5 billion in defense outlays are super-imposed, we are likely to have a business boom of some duration. Because of increased sales volume, total corporate profits could have a full recovery or even get to a record level for a time. But margins—profit per dollar of sales—are not assured of full recovery.

We must repeat that cyclical recovery, or a bit more in company earnings does not foot up to growth; and that it is growth, plus inflation, that the market is so largely allowing for in stock prices. The current evidence is that the discounting process probably will go further. This assumes neither all-out war nor peace in the old meaning of the word. If the no-war assumption should be wrong, talk of business and the market would be frivolous. A selective investment policy remains advisable.—Monday, August 21.



THE NEED TO MODERNIZE OUR OUTMODED ANTITRUST LAWS

By PAUL J. MAYNARD

— The actions being brought on the nebulous grounds of "tendency toward monopoly" that help Khrushchev to unbalance our economy

- **The puzzling aspects in Government suits, merely on "alleged possibility of monopoly" rather than on monopolistic practices — and the various companies involved**
- **When the Sherman Antitrust Act was passed in 1890 General Electric was only an infant . . . and the modern Standard Oil of New Jersey — General Electric — and U. S. Steel weren't even dreamed of**
- **Why handicap our defense effort and our economic well being and growth?**
- **How can small companies compete with the Giant Russian Monopoly — only bigness can save us today . . . then why penalize industry and its efficiencies?**

THERE is no question that every fair-minded and reasonably well informed citizen of the United States wants our antitrust laws enforced vigorously. Monopoly, except where permitted subject to regulation, is basically abhorrent to the fundamental philosophy of America's free enterprise system. However, so zealous has the Justice Department's Antitrust Division recently become in instituting suit after suit at the drop of a hat against almost every major corporation in the country that one wonders whether the target is monopoly or whether it is big business as conducted under present day conditions.

The recent strong hint that antitrust proceedings might be instituted against American Telephone & Telegraph Company illustrates this doubt. Just as one agency of the Federal government gave A.T.&T. approval to put into orbit satellites for relaying messages around the world, the Antitrust Division indicated that it was studying the feasibility of forcing the company to divest itself of its overseas communications networks.

Philosophy Behind A.T.&T. Case Questionable

This case raises two highly significant points, illuminating the entire question of whether recent actions of the Justice Department's Antitrust Division have been based on sound administration of the

anti-monopoly laws or whether they have reflected fuzzy-headed political thinking or even philosophical antagonism to big business per se. First, a suit against A. T. & T. cannot possibly be based on winning, for the public, relief from harmful monopolistic practices. It is a recognized fact that our country has the finest and most efficient communications system in the world. This is chiefly provided by one large public utility company, in other words a permitted monopoly, subject throughout its history to close regulatory supervision. Its accomplishments are impressive. Since 1927, when the first radio telephone circuit was opened between the United States and Britain at a cost of $75 for single telephone call, the charge for such a call has dropped to $9 on Sundays and at night, and $12 at other times. The quality of overseas telephone service today is also vastly superior to that provided earlier, and the Bell System has worked constantly to bring it to its present state.

A Suit Would Be Poorly Timed

Here is an instance where one agency of the Federal Government has attacked a leading corporation which another agency considers to be highly important both to the nation's defense and to its economic and scientific progress. The entire Bell System, including the activities of the Bell Laboratories and Western Electric Corporation as well as the regional telephone operating company subsidiaries, contributed mightily to America's winning of World War II. **Nor can there be any doubt that in the present world situation, particularly in the close scientific and economic race with the Communists, we need every ounce of strength the nation can draw upon.**

Within this background, wouldn't the institution of a harrassing investigation and law suit against A. T. & T. be at odds with our principal objective? Is it wise to divert the energies of essential, highly skilled business executives to costly, time-consuming and exhausting law suits, particularly when no oppressive monopolistic evils can be alleged?

► **Similar questions relate not solely to A. T. & T. but to many other of America's large industrial companies whose continuing economic and financial well-being is vital to the prosperity and even the survival of our nation. ► If we are to forge ahead and regain the lead over Soviet Russia in the Space Race and the Cold War, surely we cannot afford the luxury of attacking the sources of our economic strength.**

Nebulous Character of Many Antitrust Laws

● To be sure, the question of how to keep our enterprise system free of monopolistic and competition-stifling tendencies is very difficult and complex. It is not a problem to be solved by bull-in-the-china shop tactics, political name-calling, or prejudice. The Sherman Antitrust Act was placed on the statute books seventy-one years ago, and it must be recognized that business in 1961 is very different than it was in 1890. Notwithstanding rash statements made by certain Justice Department leaders in recent months, it is not always possible for a corporate executive to know whether the somewhat nebulous antitrust laws are being complied with in every respect. Under these circumstances, to pillory a company or a business leader for violation of a law as difficult of precise definition as the Sherman Antitrust Act is patently unfair.

● An interesting question by the presiding Federal judge in an antitrust action opposing the merger of two Philadelphia banks illustrates the nebulous nature of the concept of monopoly. ***The judge asked the prosecuting attorney how many banks there were in Pennsylvania. After learning that the number was in the many hundreds, the judge asked if the reduction of the number by one would create a monopoly. The obvious answer was no.***

Recent Antitrust Cases Instituted By The Department Of Justice

Company	Commodity
U.S. vs. American Cyanamid, Bristol-Myers and Pfizer.	antibiotics
U.S. vs. National Dairy Products, Milk Distributers Ass'n. and others.	Milk
U.S. vs. Chrysler Corp.	Autos
U.S. vs. General Motors.	Locomotives
U.S. vs. Grinnel Corp., Am. District Tel., Automatic Fire Alarm and Holmes Elec. Protective Co.	Fire and burglar alarms
U.S. vs. Aluminum Co. of America and Kaiser Aluminum.	Aluminum prods.
U.S. vs. Avdel Inc.	Quick-release pins
U.S. vs. Continental Oil of Texas	Petroleum refining
U.S. vs. McGraw Elison, Oliver Electrical, A. B. Chance Co. and others.	Transmission line hardware
U.S. vs. International Resistance, Speer Carbon and others.	Composition electrical resistors
U.S. vs. Ryder System (consent decree).	Truck rental
U.S. vs. International Salt, Morton Salt, Diamond Crystal Salt and Carey Salt Co.	Rock salt
U.S. vs. No. American Van Lines, Aero Mayflower Transit, and others.	Moving household goods
U.S. vs. Borg Warner, Dresser Inds. Halliburton Co., and others.	Oil well processing
U.S. vs. Amer. Optical and Bauch & lomb.	Eyeglass lenses

Justice Department Stretches Monopoly Concept . . . To the Breaking Point

In its zeal to attack bigness in business, the Justice Department has broadened the concept of simple monopoly to ***"conditions which might create a tendency toward monopoly."*** This notion has been especially apparent in the Department's attacks on proposed bank mergers, where it is virtually impossible to prove monopoly in its true sense. Thus, the vaguer charge that the merger might create a tendency toward monopoly is put forward. **Since almost any business combination might fall within this definition, it is obvious that if the Antitrust Division is upheld in this position, its powers will be practically unlimited.**

► An examination of the nature of the antitrust suits which have been instituted recently by the Justice Department reveals that a large percentage of them are based on ***alleged*** tendencies toward monopoly or suppositions as to possible increases in an atmosphere of monopoly rather than on solid grounds of actual existing monopoly.

► The protracted du Pont-General Motors case illustrates this charge of philosophy. For the many years that du Pont has owned its large interest in General Motors, no conspicuous monopolistic evils appeared to arise therefrom. The Justice Depart-

ment's further attempt to force General Motors to divest itself of its Electromotive Division and its finance subsidiary also appears to be based more on "iffy" ***grounds of possible tendencies toward monopoly than on actual monopolistic evils. In reality, these two subsidiaries have served the public very well. Most of the antitrust suits instituted against a broad list of major companies in recent years have been based on these nebulous grounds of "tendency toward monopoly" rather than on actual monopolistic practices.***

Shall We Turn the Clock Back?

Any reasonable evaluation of the problem of monopoly in America's economy today must be sufficiently practical to acknowledge certain basic features of our present-day business world. When the Sherman Antitrust Act was passed in 1890, General Electric Company was only an infant and such other corporations as the modern Standard Oil Company (N.J.), General Motors and United States Steel Company had not even been dreamed of. In today's highly industrialized world, big labor and big government exist side by side with big business.

It is impossible to turn back the clock and fragmentize our large corporate entities for the sake of a theoretical concept of all-out competitive activity among a large number of small business organizations. Even if this could be done, it would be extremely injurious to America's economic well-being and to the nation's competitive position relative to the large business organizations in other major countries of the world.

► **Profit margins today are so low and business so unpredictable and risky that some price stability is needed to justify long-range planning and gigantic expenditures for research and development of new products.**

In the field of drugs and chemicals a company which has made large expenditures for the discovery and production of a valuable new product should be allowed some opportunity to recover its development costs before totally free competitive forces are released to drive profit margins below the point where developmental costs can be recouped. In brief, innovators should be entitled to rewards for their xpense and risks. In this connection, it is interesting to note that the Justice Department has just indicted three leading manufacturers of antibiotic drugs (Charles Pfizer, American Cyanamid and Bristol-Myers) and the three top executives of these companies on price-fixing and monopoly charges. The defendants are accused of conspiring to monopolize the manufacture, sale and distribution of broad-spectrum antibiotics, including aureomycin, terramycin and tetracycline. The merits of the case cannot be decided of course until all the facts are known, but the problem of recovering research and development costs is undoubtedly a factor that must be taken into consideration.

Near-Hysteria in Government Statements

In his first speech after becoming head of the Justice Department's Antitrust Division last April, Mr. Lee Loevinger, a former justice of the Minnesota Supreme Court, asserted: ***"Conspiracy to violate the antitrust laws is economic racketeering which gains no respectability by virtue of the fact that the loot is secured by stealth rather than by force. Those apprehended in such acts are and will be treated as criminals and will be subjected to as severe punishment as we can persuade the courts to impose."***

In commenting on the electric equipment case which involved General Electric and Westinghouse among others, former trust-buster Robert A. Bicks stated that ***those same companies "have mocked the image of that economic system of free enterprise which we profess to the country and destroyed the model which we offer today as a Free World alternative to state control."***

► **These are indeed strong words and reflect an extraordinary degree of zealousness and suspicion bordering on complete antagonism toward our major business enterprises.** Actually it would appear that the facts fail to justify such extreme condemnation. Our antitrust laws are not spelled out in terms as clearly as these condemnations intimate, nor are the present-day attitudes of our business leaders anything like those of criminal racketeers. Even to suggest this is to profess ignorance or a strong degree of prejudice. The executives of such corporations as General Electric and Westinghouse Corporation who were jailed by Judge Ganey in the electric equipment case were not apparently seeking exorbitant profits for themselves personally but rather were attempting to obtain reasonable profit margins on their corporate divisions' business—a return on sales sufficient to provide a satisfactory return on the investments entrusted to them. Some motive of protecting smaller competitors may also have been present. That these men were wrong in the methods adopted to achieve these ends is not questioned. But that such men can be likened to hardened criminals and racketeers is absurd.

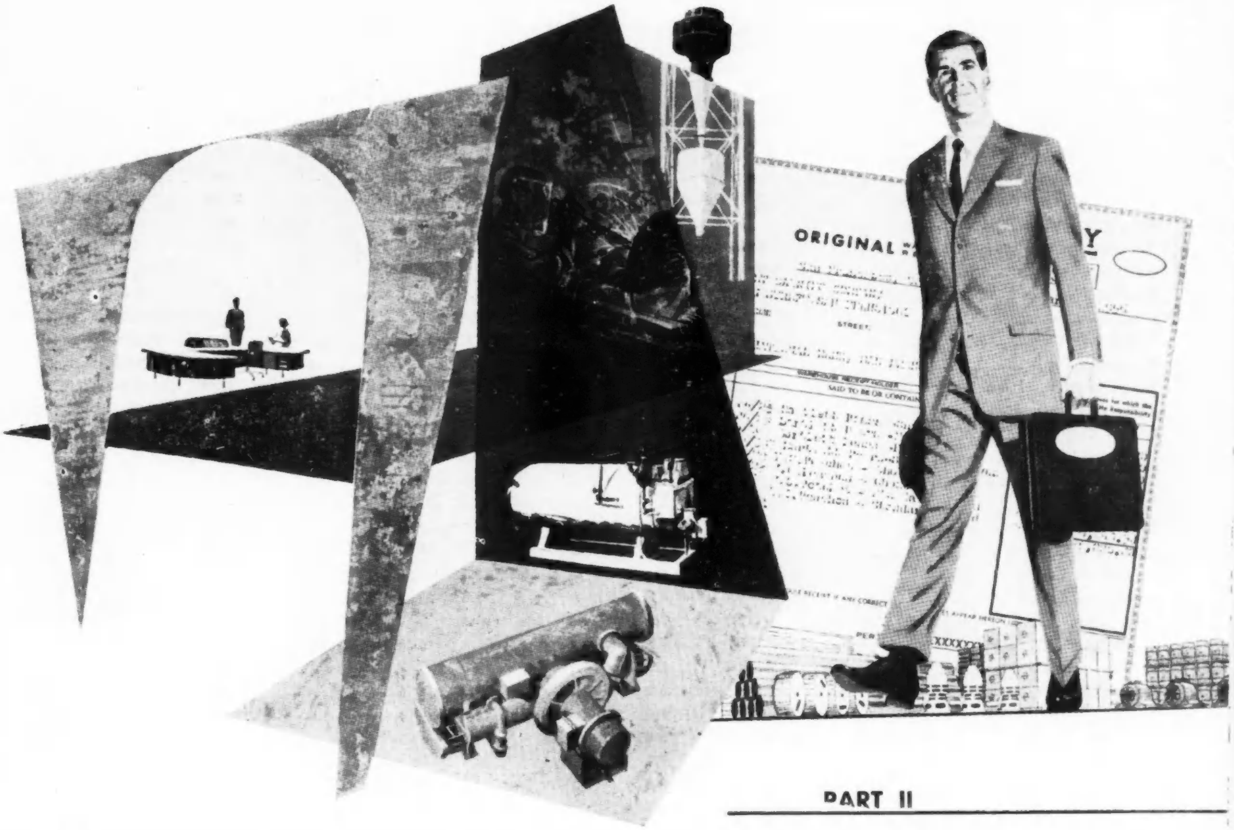
Price Uniformity Often Constructive

Tendencies toward price uniformity and stability do exist in many of America's businesses today. From such basic industries as steel and cement, with their basing-point price systems, to consumer products such as automobiles, liquor, cigarettes, milk and bread, there is a considerable amount of price similarity and price maintenance. This is not necessarily wrong or illegal. Were it not for some degree of price stability, in fact, profit margins would become non-existent and chaotic price wars would result in more harm than good.

A system of absolutely free enterprise might even result in a single, highly efficient company besting its competitors and working its way into an absolutely monopolistic position. As Henry Ford II put it recently: ***"Through sheer excellence of performance, efficiency and aggressiveness, a company may come to so dominate a market as to bring itself in violation of the law for monopolizing under Section II of the Sherman Act."***

Unintended Monopolies

The Aluminum Company of America provides an excellent example of a perfectly legal monopoly of the market built up through progressive and aggressive action. But Alcoa finally grew so large and powerful that the government moved to break it up and helped to establish a competitor. A preventive measure by large companies in such cases may be to put a price umbrella over smaller competitors. Herein lies the dangerous possibility, however. that such a practice might be found to be illegal. Pitney-Bowes and United *(Please turn to page 647)*



PART II

WHAT SECOND QUARTER EARNINGS REPORTS REVEAL

— By Industry — By Company — looking to year-end and into 1962

By WARD GATES

- **Sales and profit margin trends for various industries**
- **Companies with earnings going contrary to the trend in their industry**

DURING the last two weeks many additional second quarter earnings statements have become available which more or less confirm the general conclusions indicated in the first article of this series, in our last issue.

The business recovery of the second quarter, as had been universally expected, was accompanied by a marked improvement in corporate profits from the depressed levels of the initial three months of the year. Most concerns, particularly those in capital goods industries, reported June quarter earnings below those of the similar 1960 quarter, however, and profits for the first six months of the year are still generally well behind those of the 1960 first half. **While on balance the news contained within second quarter interim earnings reports must be viewed as favorable, it is of considerable significance that profits for the period failed to rebound with the vigor displayed during earlier business upturns, as price weaknesses and increasing operating costs continued to exert pressure on margins.**

Margins Continue Long Term Downtrend

A study compiled by the First National City Bank of New York reveals that profit margins of a representative group of manufacturers rose to 6.2% for the three months ended June 30 from the 5.4% experienced by the same group during the initial three months of the year. It is only natural that margins should improve under the crcumstances, as sales are normally much less volatile than earnings, which tend to rise more rapidly than revenues during the early phases of a business upturn.

The degree by which margins improved must be considered a definite disappointment, however, as they still trailed those of the 1960 second quarter—a period during which most corporations were operating at a higher percentage of capacity, and hence

Quarterly Sales, Profit Margins and Earnings of Selected Companies

	Second Quarter 1961			First Quarter 1961			Second Quarter 1960		
	Net Sales (Millions)	Net Profit Margin	Net Per Share	Net Sales (Millions)	Net Profit Margin	Net Per Share	Net Sales (Millions)	Net Profit Margin	Net Per Share
Air Reduction	$ 50.1	5.7%	$.73	$48.4	5.0%	$.71	$50.9	7.4%	$.96
Allengheny Ludlum Steel	60.8	4.7	.73	54.1	2.6	.37	55.7	1.3	.19
Aluminum Co. of Amer.	211.3	5.5	.52	201.6	4.0	.36	221.8	4.0	.40
American Brake Shoe	40.4	2.8	.72	37.0	2.4	.56	46.1	4.5	1.20
American Home Products	103.0	11.8	1.57	134.7	9.4	1.64	103.2	11.1	1.49
American Tobacco	327.4	5.2	1.26	299.0	5.0	1.11	308.4	5.1	1.15
American Viscose	50.8	2.9	.32	50.3	3.6	.39	53.3	3.2	.36
Borden Co.	245.4	3.3	.81	238.6	2.3	.57	241.4	3.2	.80
Bristol-Myers	N. A.	N. A.	.55	N. A.	N. A.	.63	N. A.	N. A.	.47
Burroughs Corp.	94.3	1.9	.27	90.4	1.5	.21	102.8	2.5	.30
Celanese Corp. of Amer.	71.4	7.0	.52	62.0	5.7	.32	70.7	7.3	.55
Champion Spark Plug	N. A.	N. A.	.53	N. A.	N. A.	.74	N. A.	N. A.	.70
Clevite Corp.	24.0	5.2	.64	22.7	5.1	.60	25.4	6.3	.84
Cluett Peabody	28.1	2.6	.72	28.6	4.6	1.30	23.9	3.2	.75
Coca-Cola	N. A.	N. A.	.85	N. A.	N. A.	.58	N. A.	N. A.	.82
Colgate-Palmolive	154.8	3.5	.67	149.5	3.3	.60	147.5	3.7	.66
Diamond Alkali	35.7	7.3	.87	31.3	6.6	.69	38.5	9.1	1.20
Eaton Mfg.	67.4	4.9	.65	53.3	2.8	.31	70.5	3.9	.52
Ex-Cello-O Corp.	36.1	6.4	.62	33.8	6.4	.59	38.6	6.3	.66
Ferro Corp.	15.9	4.0	.79	13.8	3.0	.50	16.3	4.9	.98
FMC Corp.	113.9	7.3	1.17	91.4	4.8	.62	103.8	7.8	1.16
Ford Motor	1,878.3	7.0	2.42	1,461.1	5.2	1.39	1,790.4	6.8	2.22
General American Transp.	68.1	5.8	.70	59.4	7.3	.77	62.3	8.3	.94
General Railway Signal	8.6	6.9	.45	9.8	6.5	.48	8.6	7.9	.52
Goodyear Tire & Rubber	380.5	6.0	.68	345.6	4.4	.45	412.4	5.0	.62
Grace (W. R.) & Co.	139.3	3.6	1.01	133.8	2.7	.71	154.0	2.8	.88
Inland Steel	190.3	7.1	.77	160.9	5.0	.46	204.5	7.0	.82
Johnson & Johnson	81.5	5.0	.60	79.7	4.5	.61	76.1	4.9	.63
Joy Mfg.	27.9	3.7	.57	23.7	2.9	.36	25.4	3.8	.53

N.A.—Not available.

were utilizing a greater amount of less efficient marginal production facilities than was the case during this year's second quarter.

● **Moreover, the 1960 period was not an especially good one, so that the failure of margins to return to the year-earlier level during the second quarter of 1961 assumes some significance.**

● **While casual observers of the economic scene may remember the June, 1960, quarter as a relatively favorable one in contrast with the recession-burdened months which followed, profits of the First National City Bank sample mentioned above during the 1960 second quarter were 12% under the corresponding 1959 period. Thus, while the recent recovery in profit margins gives some comfort, evidence is lacking that the long term downtrend of profit margins which has become increasingly apparent during the past several years has been reversed.**

Chemical Earnings Spotty

Many major chemical companies reflected this margins squeeze in their latest earnings reports, with most concerns witnessing a modest increase in sales accompanied by a decline in profits from the like 1960 period. Giant **Union Carbide,** for example, reported a 5% sales gain, although earnings were 9% lower than the $1.30 per share earned in the second quarter of 1960; this confirmed the general trend of chemical earnings already suggested by the **DuPont** and **Allied Chemical** reports. Results for **Diamond Alkali** also conformed to the pattern, with forward progress slowed by price weakness due to overcapacity in various product lines.

While lower prices and higher costs affected most chemical companies during the first half, **Air Reduction's** second quarter earnings proved unusually disappointing, as they declined almost 25% on virtually the same sales volume as during the corresponding 1960 quarter. The fact that the company has been one of the few chemicals to maintain margins during the first quarter had generally been considered a show of strength. With per share earnings in the June quarter only 2¢ above the March period's 71¢, it now appears, however, that the earlier period's results may have been inflated to the detriment of the second quarter. **The company's results during the second half should clearly indicate whether this was the case or whether it is no longer able to maintain its former level of efficiency.**

Exceptions to the Rule

Though it is not exclusively a chemical company, **W. R. Grace's** chemical operations continued to show one of the most impressive growth records within the industry. Despite generally adverse weather conditions, the Administration's Emergency Feed Grain Program which adversely affected its agricultural chemical sales, and industry-wide high-density polyethylene price cuts which retarded the progress

Quarterly Sales, Profit Margins and Earnings of Selected Companies—(Continued)

	Second Quarter 1961			First Quarter 1961			Second Quarter 1960		
	Net Sales (Millions)	Net Profit Margin	Net Per Share	Net Sales (Millions)	Net Profit Margin	Net Per Share	Net Sales (Millions)	Net Profit Margin	Net Per Share
Kennecott Copper	$138.8	14.4%	$1.82	$117.6	13.7%	$1.46	$132.2	18.5%	$2.21
Koppers Co.	70.2	2.6	.73	58.8	1.5	.34	80.5	3.2	1.00
Mack Trucks	61.0	3.1	.63	55.2	2.7	.49	76.3	4.8	1.29
Mead Corp.	92.7[1]	3.4[1]	.59[1]	73.8[1]	3.3[1]	.46[1]	81.8[1]	4.6[1]	.71[1]
Merck & Co.	57.8	10.7	.57	54.9	11.2	.57	55.6	13.2	.68
Minnesota Mining & Mfg.	151.0	11.8	.35	139.6	11.8	.32	134.3	12.0	.32
Motorola	68.9	3.2	.56	59.7	1.3	.20	74.6	4.6	.86
National Cash Register	126.8	3.4	.55	112.0	3.3	.47	108.3	3.8	.52
National Dairy Products	444.7	2.9	.91	440.9	2.4	.74	415.3	3.4	1.02
National Distillers & Chemical	191.7	4.5	.66	136.7	3.5	.42	183.8	3.4	.46
Owens Illinois Glass	142.6	5.4	.95	143.2	6.1	1.09	148.6	6.9	1.28
Pepsi-Cola Co.	N.A.	N.A.	.67	N.A.	N.A.	.38	N.A.	N.A.	.65
Raytheon Co.	142.0	1.1	.40	138.1	9.8	.33	142.8	1.4	.52
Reynolds Metals	115.7	5.1	.30	108.9	4.8	.25	109.5	6.5	.36
Rohm & Haas	58.7	9.7	4.99	56.2	10.5	5.22	59.9	10.9	5.53
Schering Corp.	20.7	9.2	.45	18.8	9.2	.41	20.4	6.1	.29
Standard Brands	151.0	2.8	.64	150.3	3.1	.69	131.9	3.0	.59
Stauffer Chemical	62.7	9.0	.61	55.9	6.7	.40	61.1	9.4	.63
Texas Gulf Sulphur	16.0	20.0	.33	13.4	20.4	.27	16.0	21.3	.34
Timken Roller Bearing	N.A.	N.A.	.78	N.A.	N.A.	.38	N.A.	N.A.	1.10
Union Bag & Paper	55.2	7.8	.56	51.9	7.5	.51	57.8	9.0	.67
Union Carbide	383.1	9.3	1.18	364.3	9.2	1.13	376.3	10.3	1.30
Union Tank Car	25.6	8.1	.59	23.1	8.5	.56	28.3	6.6	.53
United Fruit	N.A.	N.A.	.74	N.A.	N.A.	.02	N.A.	N.A.	.38
Upjohn Co.	39.2	11.7	.33	39.4	13.8	.39	36.8	12.6	.33
U. S. Rubber	254.5	3.3	1.25	219.5	2.3	.68	256.0	3.3	1.26
Warner-Lambert Pharm.	49.8	7.9	.75	48.2	7.5	.68	46.8	7.4	.65
Westinghouse Air Brake	46.2	5.1	.57	38.9	4.2	.39	50.9	3.9	.47
Wheeling Steel	55.2	3.8	.81	44.3	d.9	d.39	60.3	4.3	1.04

N.A.—Not available. d—Deficit. [1]—12 weeks.

of its Polymer Chemicals Division, Grace was still able to report higher chemical earnings for the first six months than those for the corresponding 1960 half.

The company's other major divisions also enjoyed a satisfactory first half, with the Grace National Bank making substantial gains in deposits, loans and earnings, and the Grace Line showing a profit in contrast to its deficit of the 1960 first half. Earnings of **Cosden Petroleum** (53% owned by **Grace** and consolidated in its statements) also had higher earnings for the half, although second quarter earnings were held down by lower prices, as was the case with most oils (see article on the oils, starting on page 628 of this issue). **For the full six month period Grace's earnings from operations jumped to $1.72 from $1.43 on a 10% decline in revenues, making it one of the few important companies to experience a healthy improvement in margins during 1961 to date.**

With both commercial machinery products and chemical sales up slightly during the first six months of the year, **FMC Corporation** (formerly Food Machinery & Chemical) represented another exception within its group, as revenues and earnings established new highs for both the half and second quarter. In its interim report to shareholders, however, management expressed concern over its increasing difficulty in maintaining margins as labor costs continue to rise. **Second quarter sales were even held back somewhat by lost production resulting from three strikes, which makes FMC's record performance for the half year considerably more impressive than indicated by the narrow earnings improvement of only $0.08 per share over a year ago.**

Results for **Koppers Company** were also significantly better during the second quarter than during the prior three months, with per share earnings rising from $0.34 to $0.73 on a sales gain of less than 20%. For the first half, however, the overall pattern remained the same as for most chemical companies, with earnings well behind those of the 1960 half. **Kopper's** sales suffered even more than most, as revenues of both its Engineering & Construction and Gas & Coke Divisions fell sharply, reflecting recent low levels of steel production. More hopefully, the company's backlog as of June 30 stood $22 million higher than on the same date last year, and a strong second half (contrasting with last year's depressed results for the same period) could still make this a year of progress for Koppers despite the first half decline in earnings from $1.71 per share to $1.07.

A similar outlook prevails for most companies within the industry, and modest gains are expected to be the keyone of full year earnings results for the chemical industry as a whole. The ability of the industry to show significant gains in 1962, assuming a continuation of the current economic comeback, will provide the real test as to the degree to which cost-cutting can offset lower prices. At this point it seems unlikely that margins will return to

pre-recession levels, although further improvement should be forthcoming.

A Disappointment: Merck

Results reported for **Merck** and **Ford** both showed significant deviations from the performance of their respective industry group. Whereas the latter had unexpectedly optimistic news, **Merck's** first half operations were something of a disappointment.

Most drug concerns, including **Pfizer, American Home Products, Bristol-Myers** and **Warner Lambert,** experienced varying degrees of improved net income during the first half despite the general business recession. **Merck's** per share earnings declined, however, from $1.37 to $1.14. While several other drug concerns failed to match their earnings of the initial six months of 1960, they at least exhibited some concrete signs of improvement.

Schering, for instance, reported an 8¢ per share drop during the first half, but second quarter results were better than those of the March quarter, and on a pre-tax basis half year profits actually exceeded those of the corresponding 1960 period.

Upjohn, too, reported lower first half earnings; but second quarter profits equaled those of last year's second quarter, indicating that improvement is under way.

In contrast with these, Merck's earnings decline was a substantial and continuing one, with both quarters' earnings running behind the prior similar periods despite a slight gain in revenues for the half as a whole.

Price reductions were an important factor in these results, as competition both at home and abroad continued to gain in intensity. Foreign profits were also adversely affected by certain currency devaluations, and the temporary suspension of production of Salk polio vaccine represented an additional earnings deterrent. While the latter two factors are of an unusual nature, the squeeze on operating profits may be of greater long-term significance to both the company and the industry as a whole.

Competition among drug concerns has apparently reached the point where only those concerns able consistently to develop new products of importance will manage in the future to show the record of constant earnings growth characteristic of most drug manufacturers in the not too distant past. Current political pressure for greater control over drug prices may result in legislative measures which would further hinder margins.

A Pleasant Surprise: Ford

In contrast to the depressed earnings of other leading automotive manufacturers, as discussed in the first article of this series, **Ford Motor** reported a modest increase in both sales and profits for the 1961 second quarter. While only 9¢ of the indicated 20¢ gain in year-to-year per share earnings were derived from operations (with the remaining 11¢ attributed to larger ownership of foreign subsidiaries), it will be recalled that **General Motors** had suffered a slight decline in second quarter sales and earnings, while **Chrysler** was able to generate only a nominal profit, down sharply from the year-earlier level.

Elsewhere among the motors, **Mack Truck** and **White Motor** have reported more or less similar results. Both concerns enjoyed earnings sharply above those of the first three months of the year, but below those of the corresponding 1960 period. Mack's per share earnings for the quarter were even sliced in half, dropping from $1.29 to $0.64. On the surface White presented a considerably more favorable comparison, with per share earnings totaling $1.16, off only a narrow 24 from 1960's net, and sales reportedly rising about 20%. The figures for 1961 do, however, include **White's** newly acquired farm equipment division (operated as its Oliver subsidiary) which is believed to have offset truck operating results which were as poor as **Mack's.** Both concerns expect to complete new facilities early next year, and while earnings for the remainder of 1961 may not be particularly favorable, the resultant improved efficiency coupled with a projected high level of heavy truck sales could lead to a very substantial improvement in sales and margins for both companies in 1962.

Accessories—First half declines in domestic truck and passenger car production also had an adverse effect on the auto parts group. Reflecting this trend, half-year per share earnings of **Eaton Manufacturing,** an important supplier of components to **Ford International Harvester** and others, were off substantially, from $1.53 to $0.96. Second quarter figures suggest that the company is getting concrete results from its cost control program, however, as earnings as a percentage of sales rose to 4.9% from the 3.9% realized during the 1960 period when sales were slightly higher. The company is also benefiting from an improved product mix and selective price increases. Further modest earnings improvement appears likely during the second half, and very substantial gains could be achieved next year if automobile and truck production develop as anticipated.

Food and Soft Drinks Generate Higher Sales

A random sample of food and soft drink leaders reveals generally modest but continued gain, as **Pepsi Cola, National Dairy, Borden** and **Standard Brands** all reported record sales for the 1961 first half. While **Coca-Cola** has not yet released its sales figures, the indicated improvement in earnings suggests record revenues for the leading soft drink concern as well.

But while **Borden** was able to report record earnings for the period in addition to a new all-time sales peak, **National Dairy** experienced a decline in per share earnings from $1.78 to $1.65 for the half. Most of this decrease occurred in the second quarter as increased costs of raw materials narrowed profit margins despite the sales increment which the company's strong and aggressive merchandising program was able to generate. Steps are being taken to alleviate this squeeze, and shareholders were told of "indicatives that margins will improve during the next six months" in the second quarter bulletin to shareholders. **Borden** experienced similar profit weakness in its dairy line, but earnings were strengthened by new products, improved returns from foreign subsidiaries, and a recent pick-up in chemical activities.

While **Coca-Cola** and **Pepsi-Cola** both noted relatively minor earnings gains for the first half, the realization of record earnings during a period of inclement weather which adversely affected all carbonated beverage sales strongly highlights the stability of their opera- *(Please turn to page 652)*

BRITAIN ACTS TO REVITALIZE HER DWINDLING POWER

—A Lagging Economy—Recurring Crises . . . The Pound in Danger?

By JACK BAME

- **The Lion swishes its tail to clean out the underbrush that holds her back**
- **Takes vital steps to rebuild her position financially — economically — and politically — Can she make it?**

THE tradition-shattering announcement by Prime Minister Macmillan at the end of July that England would apply for membership in the Common Market formally marked the end of an old era of stand-off isolation for Britain and the Commonwealth group and the beginning of a new economic—and perhaps political—orientation. This development presents a convenient opportunity: 1) to analyze the lag in the U.K.'s economic output and productivity, as compared with the rest of Western Europe in the 1950's; 2) to look at what has and has not been done to correct the situation and meet the recurrent crises which have occurred; 3) to examine the latest developments concerning the British economy and the Pound Sterling, and 4) to delve into the meaning of the new "austerity" program. Then, the effects upon Britain of the recent move to join the Common Market and proposed changes in the IMF and international financial systems, from both the short and long-run points of view, will be examined. Finally, the prospects for the British economy and currency will be summed up.

The Background

Britain's problems are by no means a new and purely post-World War II penomena. Some of the leading economic worries since 1949 are, however, exactly opposite to those of the mid-1920's and the 30's—mainly inflation rather than deflation. But exchange crises persist, gold and foreign exchange reserves have been chronically inadequate, while the overall balance of payments situation remains unfavorable. Recent events thus make relative economic stagnation in Britain, as opposed to Continen-

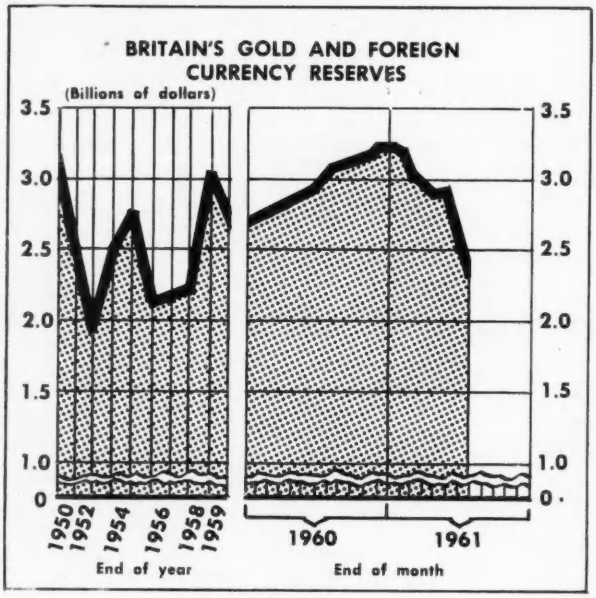


CHART I

tal European dynamism, self-evident.

After England left the gold standard in September, 1931, she entered a long period marked by more monetary management, exchange controls, protective tariffs, and a system of imperial preference for Empire and Commonwealth associates. **This attempt to insulate the economy from international influences was itself largely responsible for the inability of certain sectors of British industry to compete in international markets today.**

The intolerably high level of unemployment in the 1930's has made a really deflationary policy unpalatable, thus giving some impetus to inflationary pressures.

In capsule form, the chronic troubles with Britain's post-war economy have been sluggish exports; rising imports; lagging production and productivity, reducing the international competitiveness of the economy; too-rapidly rising wages, prices and costs; an over-utilization of labor accompanied by failure to modernize plant and equipment; and an excessively high structure of tariff protection. In addition, the country has been subject to additional strains by the burden of paying out gold on Sterling balances held outside the Sterling Area and acting as banker to the Sterling Area itself.

The Experience of the 1950's

Despite the appearance of a number of special factors at specific times in the 1950's, Britain has been subjected to rather regular economic disorders and crises during the decade since the September, 1949, devaluation of the Pound, from $4.03 to $2.80. Even though, from the currency management viewpoint, the record has generally been progressive, the economic measures taken to meet each crisis have been of the piecemeal variety, without real cognizance of basic weaknesses. (This criticism has hardly been peculiar to Britain alone.) Since the U.K. is so dependent upon imports, exports, and international financial movements—-the Pound Sterling traditionally serving as one of the globe's key currencies—the state of both the internal and external position of the economy has been reflected in the balance of payments statistics. (See Table I.) Rates, however, have been affected by official intervention in both spot and forward currency dealings in order to narrow fluctuations caused by international speculations. It should be kept in mind that even narrow fractional changes are meaningful in the quotation for Sterling, as international trading volume is considerable.

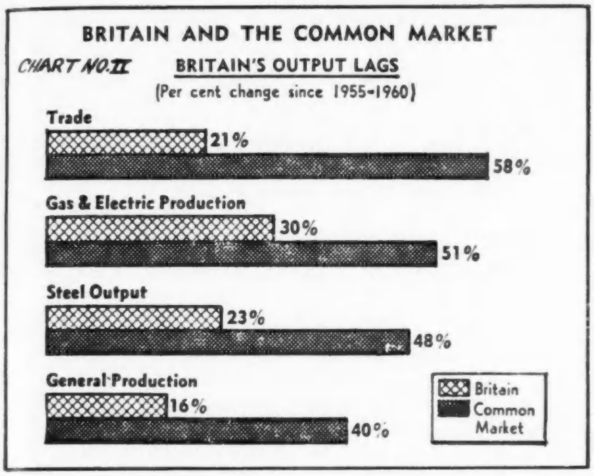
► **The Developments since the end of 1958**, when external convertibility was declared for Sterling and for other European currencies and the European Common Market began to function, led up to the 1960-61 events and Sterling troubles. For it was in 1957 that the last real crisis was met and overcome —at least on a short-term basis—by a 2% rise in the bank rate to 7%, a firm decision to hold the Sterling parity at $2.80 and a curtailment of bank credit and public investment. At the end of 1958, England—helped by substantial credits from the IMF and Export-Import Bank and recovery from 1958 recession tendencies—made British trade outside the Sterling Area fully transferable. Thus, the Pound re-achieved the status of a top-ranked international currency. Exchange controls were progressively eased, the domestic economy was revived, gold and foreign exchange reserves rose and credits were repaid to the IMF. Finally, in January 1960, the bank rate was raised from 4% to 5%, as boom tendencies were increasing inflationary fears and interest rates in other leading overseas centers were rising.

By April, a further shift to restrictive policies took place. The bank rate was upped to 6% and a system of obligatory "special deposits" of the clearing banks with the Bank of England was instituted, in order to cut down on the amount of funds available for lending. Public investment was to be curtailed and a generally tight credit situation was applied. The high interest rates attracted short-term funds to London on a large scale, offsetting the considerable commercial deficit in Britain's external dealings. (From 1953-1960, British exports rose only 28%, compared to over 50% for world exports, 92% for Holland, 180% for Italy and 156% for West Germany.) Thus by 1960, the deficit rose to £347 million—the biggest since 1951. The country's reserve position was further weakened by continued reserve drawings by other members of the Sterling Area.

The First Half of 1961 saw new short-term problems arise for England, on top of her longer-run problems of lagging exports, productivity and eco-

Table I — United Kingdom Balance of Payments
(£ million)

	1959 (year)	1960 (year)	1961 (1st qr.)
(a) Current balance (of trade and all "invisible" overseas transactions)	+51	—344	—56
(b) Long term capital (+inflow: —outflow)	—495	—201	+35
(c) Sum of (a) and (b)	—444	—545	—21
(d) Balancing item (unaccounted for) inflow of	+64	+377	+50
(e) Balance of other monetary movements (incl. gold)	+380	+168	—29



nomic growth. The bank rate had been cut in ½% steps to 5% by December of last year, in response to some slowdown in domestic output and to the international troubles of the U.S. Dollar. **By February, as the U.S. Dollar position improved, the inflow of short-term funds to London ceased. With the 5% upvaluation of the German Mark on March 4th, new pressures were placed upon the Pound, which already had shown some signs of weakness. Funds flowed out of London into West Germany, France, Italy and Switzerland, in anticipation of more upward changes in currency values in those countries.** On top of the unfavorable balance of payments position, these events led to increased apprehension of Sterling's future and intensified speculation against the Pound.

Official reserves fell by at least £278 million from February through July, and probably by £500 million if holdings under the Basle arrangement are included. The July drop alone was equivalent to $319.2 million, the largest monthly decline since the end of 1951, bringing total official reserve holdings to their lowest level since the beginning of 1958. **These developments, along with rising internal demand, a high level of installment loans and of consumption and investment, expenditures, a low rate of unemployment, sticky exports, and new high levels of overseas commitments, called for a new series of official measures to prop the Pound Sterling and strengthen the British economy.** The program, announced on July 25th, was deflationary in nature, leading to a renewal of the ever-simmering debate over the relative merits of economic restriction vs. expansion—to which there is no easy or set answer.

The July 1961 Program. In precise terms the goals of the new program are: ● 1) to maintain investment in productive industry in Britain, but to divert more of this production to export; ● 2) to increase the competitive nature of British production; ● 3) to help keep down prices and costs by bringing government expenditure under more effective control; and ● 4) to protect the immediate position of Sterling in the foreign exchange markets, by monetary discipline at home and by fortifying the reserves through a "substantial" IMF drawing. **The Chancellor of the Exchequer restated his goal of a 3% annual rise in G. N. P., which would involve a 6% increase in exports, and called for longer-term planning among labor, management and government. He summed up the domestic problem, and the reasons for the new disinflationary measures, by pointing out that in 1960/61 the $4 billion increase in personal income compared with only a $1.8 billion increase in production.**

The actual "domestc" steps taken were as follows:

● The bank rate was raised from 5% to 7%.

● Commercial banks were called upon to place an additional 1% of assets in "special deposits" with the Bank of England, to help cut down advances. Banks were requested to be "particularly severe" on advances for personal consumption to allow for more funds to finance exports and "productive" industry.

● A 10% increase on existing purchase tax rates for consumer goods and on excite duties (gasoline, whiskey, tobacco, etc.) was decreed.

● Public expenditures are to be "brought into proper relationship with the resources likely to be available," starting with next year's budget.

● A freeze on dividends in the coming year was asked for.

● A tax on "speculative transactions" in shares, securities and real estate was recommended.

● Subsidies to agriculture are to be reduced.

● The government took the lead in limiting "unwarranted" salary increases by initially rejecting a pay raise for teachers in public schools.

● NATO will be asked to review the "financial conditions under which British forces are maintained" in the next fiscal year, while government overseas spending is cut from $1.4 billion to $1.1 billion.

● Diplomatic and administrative service expenses overseas will be reduced by about 10% in the next financial year.

● Private investments in the non-Sterling area must show that they produce "clear and commensurate benefits" to the balance of payments. Profits earned overseas will be examined by exchange control authorities to ensure that an "adequate" proportion of profits earned is being repatriated.

Britain Licks Her Wounds and Rises to Her Feet

The IMF Drawing. A huge amount of funds has also been made available by the IMF, in the form of an immediate $1.5 billion drawing in nine currencies and one-year stand-by rights of another $500 million. The drawing consists of $450 million in U. S. dollars, $270 million each in Deutsch Marks and French francs, $120 million each in Italian lira and Netherlands guilders, $90 million in Belgian francs, $75 million each in Japanese yen and Canadian dollars, and $30 million in Swedish kronor. This credit has provided a more-than-substantial cushion for Sterling to avoid any immediate crisis and should allow an easier adjustment during the period of enforcement of the recent fiscal and monetary measures. **In short, the Pound has been granted a prolonged breathing space while more basic domestic economic correctives take shape, and devaluation has again been avoided.** But if the program proves as ineffective, from a longer-term point of view, as have past crisis moves of the '50's, the formula of a restrictionist economy could be abandoned for the expansionist one advocated by such men as Sir Roy Harrod, the well-known British economist. *(Please turn to page 651)*

Inside Washington

BY "VERITAS"

CONGRESS, getting restive and irritable, wants to adjourn by Mid-September but is uncertain of the course it should take — stay in Washington to support (or curb) the Administration or head for the hinterlands. The support, naturally, would be in the area of defense, or war; the curb would be on domestic spending as we mass resources for possible war with Khrushchev on the Berlin issue. Basically, there is the fear that the man in the White House is too uncertain of himself, relies too much on the advice of an "inner circle" that is as immature as the President, and as far left as the "brain trust" of the late Franklin D. Roosevelt. The pending Senate struggle (possible filibuster) over amendment of Rule XXII, which presently allows virtually unlimited debate, may serve to keep the Upper Chamber in Washington until October 1, or later.

CONTINUED inflation is "inescapable," according to well posted sources in the marbled mazes of Capitol Hill and the "downtown" bureacracy in position to know. The bureaucrats are not speaking openly, while many of the Senators and Congressmen, including some Administration supporters, are less reserved in their comment, largely confined to background and off-the-record statements. Government statistical agencies fear further cost of living increases, particularly in the areas of food and fiber; "keeping fingers crossed" on automobiles, appliances and other durables. The legislators seem more concerned with inflationary wage increases in the auto industry, as well as probable steel price increases this fall. These, in the minds of many, are valid reasons for drastic cutbacks in New Frontiers' spending on the domestic front — to say nothing of the shadows of impending war.

EXPENDITURES at this time for research into space circumnavigation and a flight to the moon should have less priority. This is the thinking of hard-headed realists here who feel they have little or no military value now — perhaps in the distant future, yes, but not at a time when our crying defense needs lie in the rapid development and production of weapons for a war which may have to be fought before year's end. Although the Administration takes a different view, Congress certainly veers toward that of the realists. There will be no open move by the legislators to reverse the President, although they may yet insist on getting the supersonic, nuclear-carrying B-70 bomber into early production at the cost of space research which, they say, can only have a nebulous propaganda value for some years to come.

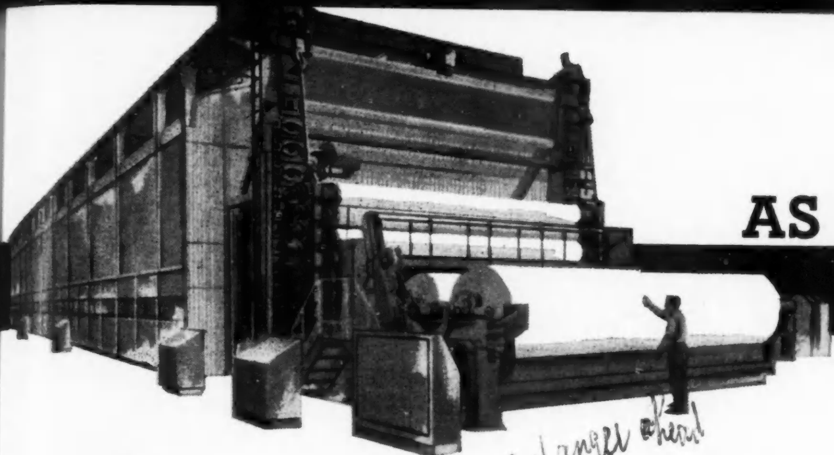
WASHINGTON SEES:

Failure of the President's grandiose, $20 billion Alliance for Progress program for Latin America is well within the realm of probability. Off to an inauspicious start at best, future difficulties beset its path, may prove insurmountable,

First, the Latin nations' rulers are patently unwilling to accede to U. S. demands for economic, tax, social and land reforms. With long-ingrained desire for what the Orientals please to call "cumshaw" (graft), the Latin bosses want our billions "without strings attached."

Next, there is the hovering suspicion that (1) the whole program snacks of "Yankee Imperialism" that would eventually lead to U. S. domination of all facets of their operations, and (2) that the U. S. Congress, patently in favor of cutting down foreign aid, will not go along with the Kennedy $20 billion package.

Although the leaders of four or five of the more prosperous South American nations have indicated willingness to only partially bow to our proposals for close control over U. S. monies flowing southward, they are a minority among the other countries. Admittedly, Cuba's Minister of Finance, the Red Ernesto (Che) Guevara, has outsmarted us from the propaganda angle, in that he has sold the Latin masses on the idea that the program is a wily "Yanqui" move to completely dominate the southern half of the Western Hemisphere, economically and militarily.



AS WE GO TO PRESS

danger ahead

Goldwater Popularity Grows, to Discomfit Liberals. The GOP Senator from Arizona, now authoring a tri-weekly syndicated column appearing in more than 120 newspapers, is seriously worrying the do-gooders and spendthrifts of both Parties. In a terse style, Goldwater is mercilessly exposing the fallacies of many of the New Frontiers programs, as well as other Federal government spending projects that hammer down the value of the dollar and build for serious inflation. That his ideas "take hold" at grass roots is indicated by the mounting volume of Congressional mail endorsing his ideas. By the time this appears, his syndication will have mounted to more than 200 papers.

Retraining Program Drags. Although Senate and House Labor Committees have approved legislation to effectuate the Administration's retraining program (including cash compensation) for persons displaced by automation, it now seems unlikely that passage will take place in the near future—perhaps not until next Session of Congress. Conservatives in both Houses begin to feel that it will mushroom into a costly deal of continually growing annual outlays, while not a few believe it is a problem primarily for the individual States, industry and organized labor. Further, in some areas where industry and labor have cooperated on retraining, there has been little success in finding employment for those who have been retrained. Meanwhile, Labor Secretary Arthur J. Goldberg has mapped procedures to put it into effect the moment the President signs the necessary legislation.

Pressure For Absolute Trade Embargo Against Cuba Mounts. Capitol Hillians, even of the Presidents' own Party, feel it is "high time" to completely sever trade relations with Castro's Communist dominated state. As a matter of fact, in 1951 Congress inserted in the Reciprocal Trade Agreements Act a proviso that the Chief Executive withdraw reduced tariff rates negotiated under the Act as soon as "practicable" from all countries dominated or controlled by Communists, certainly a fact insofar as Cuba is concerned. However, Cuba today continues to export tobacco, molasses and other products to the U. S., and receives preferential treatment. It is a growing Congressional view that the Administration, for unknown reasons, deliberately ignores the law—perhaps in fear that other Latin countries will not approve. In the meanwhile there are reliable hints that the President's judgment is faulty—that many of the Latin-American neighbors will follow our lead if we do completely sever trade relations.

Radio-TV Networks Will Escape FCC Licensing. Despite Federal Communications Commission Chairman Minow's plea for legislation enabling the Commission to license the networks tri-annually, as is now applicable to individual broadcasting stations, Congress will take no definitive action this year. Several bills to effectuate Minow's desire are "in the hopper," but prospects of enactment are somewhere between dim and impossible. The proposition smacks of super censorship by government under pressure from reform elements. Further, the Solons feel that future arbitrary use of the network licensing power could too readily cripple an essential communications media, even though some of

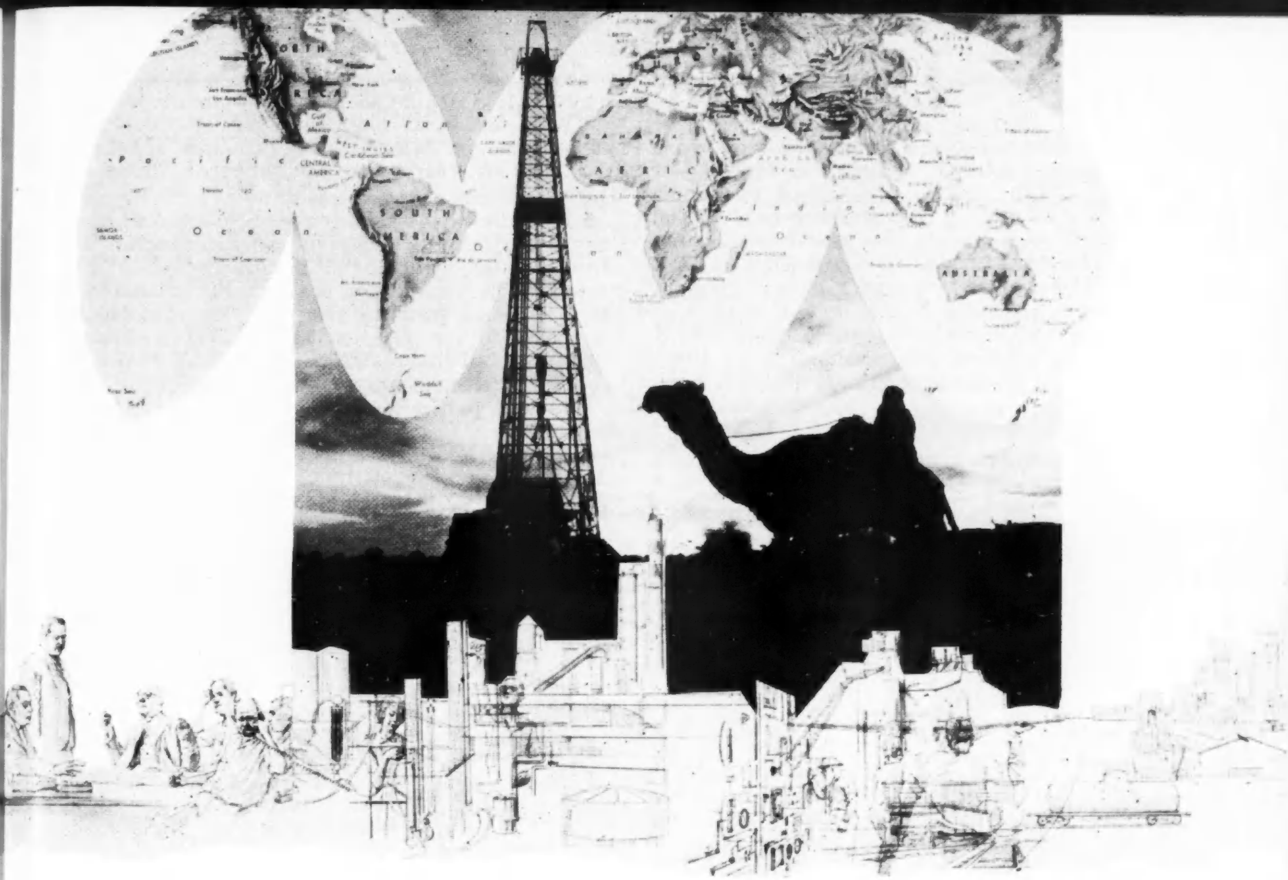
the publicly objected-to network programs may possibly be contributing to juvenile delinquency and other real or fancied social ills. Definitely, there is a Capitol Hill belief that the industry can properly "police" itself.

Urban Rail Commuter Service to Be Completely Taken Over by Federal, State and Local Governments? The answer here is in the affirmative, but just when is not clearly known. Interstate Commerce Committees of House and Senate, plus the Interstate Commerce Commission and Federal agencies concerned with housing and urban problems, are now acutely aware of financial problems of the rail carriers with large commuter operations. Consensus of opinion begins to crystallize on thesis that (1) the carriers cannot be relieved through rate increases, but must completely withdraw their losing commuter services, and (2) that a combination of Federal, State and Municipal governments must "take over." General opinion is that public pressure on regulatory authorities which often prevents establishment of compensatory rates would be ineffective under government operation. Philadelphia is one municipality that has met the commuter service problem through local government management and subsidization. It can be accomplished in other metropolitan areas, according to Washington thinking, including that of top rail union officials.

Administration Supporters Forced to Abandon Black-Jack Tactics on Education. August 11 action of Senate Labor Committee in favorably reporting one-year extension of Federal aid for school districts in Federally "impacted" areas, minus any other form of Federal assistance for education, has compelled Administration adherents on Capitol Hill to give up any further plans to use this measure as a club to force Congressional approval of the entire New Frontiers education "package"—aid for school construction and teachers' pay, as well as extension of the National Defense Education Act. House Rules Committee, which previously stymied the educational "triangle," is prepared to Okay the impacted areas bill and extension of NDE Act, but positively nothing more; full House will support the Committee. It adds up to Administration realization that black-jack tactics won't work, other than to antagonize a majority of the legislators. Of more importance, it very possibly signifies abandonment of the other Kennedy aid to education programs for a matter of three or four years. Another black-jack move, certain to be abandoned, is holding up of entire Atomic Energy Commission construction program because of House rejection of the proposed $95 million steam-electric plant at the Hanford, Wash., AEC installation. This represents a distinct setback for public power advocates, who plan to carry the fight into the next Session of Congress.

Oil Shale Exploration to Be Simplified. This is the hope of Interior Dept. which, in cooperation with a private company, is running tests utilizing oil and gas-well drilling and logging methods instead of the slower and more expensive core-drilling system for locating and evaluating oil-shale formations penetrated while drilling for oil and gas. One hole drilled for oil in Utah has been logged with high indications of oil-rich shales, and at much lower cost than the heretofore conventional method of core-drilling. The new system, not yet completely appraised, indicates shale exploration costs may be reduced by as much as 50%. It is a matter for close consideration, even though extraction of refined oil products from shales is presently about 20% costlier than refining oil obtained by normal well production.

Defense Redoubles Efforts to Supply Materiel for Ground Fighting. Already getting into "high gear" in production of the M-14 rifle (see Small Arms Bottleneck, issue of Aug. 12), Defense Dept. has let additional contracts for this superb infantryman's arm; now expects to have "ample" supply for enlarged overseas units by end of year. With the rifle situation now much brighter, there will be concentration on tank production—increase of at least 25% hoped for in next six or eight months; not exactly soon enough for heavy Berlin fighting (if it breaks out) but we and our NATO allies have enough of the mobile fortresses to make a credible showing until the new ones can start moving across the Atlantic. In meanwhile, look for Administration to appeal to steel industry to hold the price line when new wage scales go into effect next October.



1961 MID-YEAR
DIVIDEND FORECAST

Important Reappraisal of . . .

THE INDIVIDUAL OIL COMPANIES —DOMESTIC and GLOBAL

— Where they stand today — their profits position and outlook

By BRYAN PYNOR

- **This expert and comprehensive analysis gives you an all-around picture of the status of the individual companies — their earnings position in the first half — and what to expect in the second half**
- **Calls attention to companies advancing against the general trend in the industry — and why — the oils in the best position to profit — those likely to remain static — to continue to lag**

THE petroleum industry recently completed one of the most prosperous first half periods in its history. Profits during this period were excellent, showing very sizable, if not record, gains from the first half of 1960. However, some disquieting trends became evident, too, and as the industry looks to the final half of the year, it is these trends that occupy its attention. Managements of the leading companies know they cannot afford to rest on the laurels of the first six months.

● The first thing that caused top executives as well as salesmen in the marketplace serious concern, was that demand for oil products held still, showing no advance from the first half of 1960. Sluggish demand was largely responsible for an increase in inventories by about 35 million barrels during the first half of the year. And of most concern, prices eased during the second quarter in the face of abundant supplies.

● The most revealing single set of statistics illustrating the challenge which currently faces the industry is monthly data on gross refiners' margins. This margin, which represents the difference between the price for a barrel of crude oil and the price for a barrel of finished products, is estimated by the Independent Petroleum Association of Amer-

ica. While the absolute level of the figures for any one month may not be precisely representative of actual margins, the trend of data does correspond fairly closely with the trend experienced by most refining companies. **At the beginning of the year as Table I shows, this margin was about $1.00 per barrel and, what is really important to note so far as earnings are concerned, is that it was as much as 25¢ per barrel higher than at the same time in 1960. However, as the year 1961 has progressed, the margin has declined, so that it is now no higher than in 1960. This points up dramatically the problem which has caused most oil managements to furrow their brow as they look to the second half of 1961.**

TABLE I

Gross Refiners' Margins in the U.S.

Cents per Barrel

	1960	1961
January	$1.00	$ .75
February	1.01	.75
March	.98	.77
April	.92	.74
May	.83	.72
June	.88	.78
July	.87	.87

Sinclair and Atlantic Hurt

Sinclair is a case in point. For the first half of the year it reported net earnings of $1.52 per share against $1.40 per share in the first half of 1960. However, during the second quarter, earnings were down sharply from 59¢ a year ago to 46¢. Management attributed the decline to three factors. The first was that the company's economy program reached its peak in the second quarter of 1960, making this year's comparison unfavorable. Secondly, Sinclair suffered from labor strikes in the second quarter. Thirdly, management said, "an extraordinary drop in prices realized on sales of refined products, particularly gasoline, fell upon the industry's domestic markets with a heavy hand during the second quarter."

● Management went on to explain the disappointing second quarter as follows: "The first two factors cited above as having contributed to reduced earnings in the second quarter are understandable. As a matter of fact, such expenditures will undoubtedly produce future benefits of a material nature. But the critical collapse of gasoline prices at the height of the consuming season is quite a different matter. It presents a most serious problem, challenging all of the wisdom and statesmanship of the Petroleum Industry, and all of those interested in it either directly or indirectly. So far as Sinclair is concerned, we can only repeat here what was said in the Annual Meeting of Stockholders held last May in Houston, Texas: 'Some adequate solution or solutions to this problem (inadequate price realizations) must be found. You may depend upon it that Sinclair management has made, and will continue to make, the finding of such a solution its first order of business.' "

● Another firm which suffered from the disappointing trends in prices was **Atlantic Refining**. While first half profits were up more than 30% to $2.31 per share, earnings in the second quarter fell to 71¢ per share from 87¢ last year. The President of Atlantic Refining attributed this decline to less favorable demand for gasoline as well as the deteriorating price trends. In addition, he indicated that increased taxes, payable to the Venezuelan government where Atlantic now produces substantial quantities of crude oil, also affected the second quarter results.

● In addition to these two East Coast companies **Pure Oil,** which markets principally in the Mid-West and the South, was hard hit during the second quarter. Earnings declined by nearly one-half to 41¢ per share, whereas profits during the first quarter had been level with a year earlier at 71¢ per share.

Management told its stockholders that "Pure was harder hit from a product price standpoint than most oil companies because of the disproportionate number of price wars in our key marketing areas." The Chairman of the Board added that "over the last four years the oil industry has been afflicted by a continuing price erosion. The general product price structure is well below the level necessary for the sound economic growth of the industry."

Slow Demand Affects Continental

Continental Oil felt the effect of stagnant demand more than the declining trend of product prices. In its letter to stockholders the company pointed out that net crude oil production averaged about 186,000 barrels a day, down 1.2 percent from the first half of 1960 because of lower producing allowables in the states of Texas, Kansas and Oklahoma.

● The decline in Continental's volume was also reflected in refining runs which were down 1.4 percent and in sales of refined products which declined nearly 5 percent to 240,000 b/d. Surprisingly, the company also reported that demands of certain natural gas pipeline companies were lower than expected and that due to this factor, plus natural decline in productivity of older reserves and reduced allowables, the company's output of natural gas decreased 7 percent. Due largely to these factors, earnings of Continental in the second quarter declined slightly to 60¢ per share whereas profits in the first three months of the year had been somewhat higher than a year earlier.

● Continental did report that it was making good progress in the development of a major new oil concession in Libya as well as in the tapping of markets for this production which will commence sometime in 1962.

● To date, Continental in association with its partners (Ohio Oil and Amerada) has completed 54 oil and gas wells in Concession 32. So far as the development of market outlets for this oil is concerned, Continental has acquired an independent marketing company in Germany which will shortly have over 400 service stations in operation as well as a leading independent distributor in the United Kingdom. Furthermore, in June, Continental entered into a long-term agreement with one of Germany's leading independent refining companies to supply a major part of its crude oil requirements from Libya.

West Coast Problems

On the West Coast the problems of refiners were magnified even more than in other areas of the country by prolonged retail price wars which began late in February and continued throughout the second quarter.

Second quarter profits of **Tidewater, Richfield** and **Signal** each eroded sharply, **Tidewater's** falling from

Statistical Data on Leading Oil Companies

	1st 6 Months: Net Sales 1960 (Millions)	Net Sales 1961 (Millions)	Net Profit Margin 1960 %	Net Profit Margin 1961 %	Net Per Share 1960	Net Per Share 1961	Full Year: Earned Per Share 1959	Earned Per Share 1960	Cash Earn. Per Share 1960	Indic. 1961 Div. Per Share *	Price Range 1960-61	Recent Price	Div. Yield %
AMERADA PETROLEUM .... W.C. (mil.) '59–$58.0; '60–$67.2	$51.8	$50.7	2.6%	2.7%	$2.17	$2.24	$4.08	$4.37	$9.44	$2.60	93⅞-55	84	3.0%
ATLANTIC REFINING .... W.C. (mil.) '59–$63.5; '60–$83.9	279.2	290.7	6.0	7.4	1.80	2.31	3.19	5.00	10.91	2.00	60 -31¼	52	3.8
CITIES SERVICE .... W.C. (mil.) '59–$308.3; '60–$296.7	493.7	501.0	3.7	4.7	1.74	2.23	3.96	3.85	11.68	2.40	58½-39⅜	55	4.3
CONTINENTAL OIL .... W.C. (mil.) '59–$104.6; '60–$96.9	410.1	415.6	7.0	6.9	1.35	1.34	2.85	2.90	6.48	1.70	60½-40	56	3.0
COSDEN PETROLEUM .... W.C. (mil.) '59–$10.0; '60–$9.7	82.5[1]	82.1[1]	5.7	5.8	1.59[1]	1.58[1]	1.58	1.59	3.50	1.00	29⅞-18⅛	26	3.7
CREOLE PETROLEUM .... W.C. (mil.) '59–$43.5; '60–$72.6	N.A.	N.A.	N.A.	N.A.	1.30	1.60	2.58	2.64	4.17	3.25	46⅛-25¼	36	9.0
GETTY OIL .... W.C. (mil.) '59–$10.3; '60–$15.8	31.7	36.7	13.9	18.5	.28	.43	.67	.68	1.26	—	21¼-12¼	17	—
GULF OIL .... W.C. (mil.) '59–$690.6, '60–$781.1	1,586.2	1,614.3	9.8	10.5	1.56	1.64	2.90	3.20	5.51	1.20[2]	42⅜-26½	39	3.0
HONOLULU OIL .... W.C. (mil.) '59–$19.6; '60–$17.4	23.5	25.2	23.8	26.1	1.50	1.76	3.44	2.77	5.90	2.00	94 -40¾	80	2.5
IMPERIAL OIL LTD. .... W.C. (mil.) '59–$222.2; '60–$220.5	412.2	426.3	7.4	6.9	.98	.92	1.73	1.94	3.39	1.35	47⅛-30⅞	45	3.0
LOUISIANA LAND & EXPL. ..... W.C. (mil.) '59–$12.3; '60–$18.4	22.1	24.1	50.0	49.2	1.23	1.32	2.21	2.54	2.97	2.00	79⅜-60⅛	73	2.7

*—Based on latest dividend reports.
W.C.—Working capital.
d—Deficit.
N.A.—Not available.

1—Year ended April 30.
2—Plus stock.

COMPANY RATINGS

	Rating		Rating		Rating
Amerada Petroleum	A1	Cosden Petroleum	C2	Gulf Oil	A1
Atlantic Refining	B1	Creole Petroleum	B1	Honolulu Oil	B3
Cities Service	B1	Getty Oil	D3	Imperial Oil	B2
Continental Oil	A2			Louisiana Land & Epl.	B1

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earning trend. 3—Earnings up from the lows. 4—Lower earnings trend.

80¢ to 21¢ per share, **Richfield's** falling by half to 46¢ per share, and **Signal's** declining by more than 50 percent to 19¢ per share.

● In contrast to these companies, **Union Oil Company of California** registered amazingly good earnings considering the sharp effect the price wars had on West Coast profit margins. Its profits in the second quarter were 87¢ per share, only 3¢ lower than a year earlier. And for the first six months of the year it showed a 25 percent increase in earnings to $1.92 per share.

● A major increase in sales of natural gas was one of the chief factors which enabled Union to offset the adverse effects of the price war. These sales increased more than 30% to 79 billion cubic feet, reflecting chiefly new production in Louisiana. **Union** believes that the North Pagie Lake field in southern Louisiana is one of the best on-shore gas fields found in southern Louisiana in recent years.

● Increased efficiencies also helped Union's earnings statement. In spite of these generally encouraging developments Union's management, too, indicated its concern over the West Coast price level. It said, "Severely depressed gasoline prices continued to hurt earnings—especially during March, April and May. Low prics still prevail in many areas but in general retail prices have improved in recent weeks."

The Profit Builders

All was not black crepe for leading companies in the industry. Some other companies, like Union, turned in exceptional earnings.

● **Cities Service**, an East Coast refiner (just as are Atlantic and Sinclair), raised its second quarter profits from 53 cents in 1960 to 85 cents per share this year. For the full half year, its earnings were up 30 percent to $2.23 per share. Increased production of crude oil, higher product sales, and reduced costs were responsible for the very good performance.

● And in the Midwest, **Standard Oil of Ohio** and **Ohio Oil Company** turned in good advances. The latter was most impressive in that all of its gain in first half profits (from $1.28 per share last year to $1.35 per share this year) was registered in the

Statistical Data on Leading Oil Companies—(Continued)

	1st 6 Months: Net Sales 1960 (Millions)	Net Sales 1961 (Millions)	Net Profit Margin 1960 %	Net Profit Margin 1961 %	Net Per Share 1960	Net Per Share 1961	Full Year: Earned Per Share 1959	Earned Per Share 1960	Cash Earn. Per Share 1960	Indic. 1961 Div. Per Share *	Price Range 1960-61	Recent Price	Div. Yield %
OHIO OIL W.C. (mil.) '59–$88.1; '60–$79.3	173.0	177.4	10.2	10.8	1.28	1.35	2.76	2.84	4.81	1.60	45¼-30⅛	45	3.5
PHILLIPS PETROLEUM W.C. (mil.) '59–$219.8; '60–$195.7	603.1	607.2	8.5	9.0	1.51	1.60	3.05	3.27	7.34	1.70	64½-41⅛	64	2.6
PLYMOUTH OIL W.C. (mil.) '59–$14.6; '60–$14.3	N.A.	N.A.	N.A.	N.A.	.02	.24	.84	d.92	2.87	—	29⅜-15⅛	24	—
PURE OIL W.C. (mil.) '59–$129.5; '60–$129.3	166.8[1]	167.9[1]	4.0	4.0	.60[1]	.69[1]	3.32	3.29	6.63	1.60	39⅞-27⅜	36	4.4
RICHFIELD OIL W.C. (mil.) '59–$114.4; '60–$117.8	136.5	135.4	10.2	6.9	1.73	1.13	3.48	3.56	7.22[2]	1.80[2]	53¾-34⅜	43	4.1
ROYAL DUTCH PETROL W.C. (mil.) '59–$1,266; '60–$1,255	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	4.0.5	4.02	—	1.43	43⅞-28⅝	33	4.3
SHELL OIL W.C. (mil.) '59–$284.6; '60–$298.2	898.2	929.7	7.7	7.5	1.14	1.15	2.43	2.39	5.70	1.10	46⅞-30¼	44	2.5
SKELLY OIL W.C. (mil.) '59–$300.4; '60–$314.0	$614.9	$610.1	3.5%	3.8%	$1.40	$1.53	$2.96	$3.41	$10.83	$2.00	55⅞-33	40	5.0%
SINCLAIR OIL CORP. W.C. (mil.) '59–$52.1; '60–$56.4	124.4	124.0	8.9	9.0	1.93	2.09	4.68	4.32	11.29	1.80	67¼-37	58	3.1
SOCONY-MOBIL OIL W.C. (mil.) '59–$661.7; '60–$686.5	N.A.	N.A.	N.A.	N.A.	1.72	2.24	3.38	3.76	8.26	2.00	48½-34⅞	46	4.3
STANDARD OIL OF CALIF. W.C. (mil.) '59–$416.4; '60–$429.8	918.8	952.6	13.9	14.3	2.03	2.16	4.01	4.21	6.54	2.00	56¾-40	50	4.0

*—Based on latest dividend reports.
W.C.—Working capital.
d—Deficit.
N.A.—Not available.

1—1st. quarter.
2—After 2 for 1 stock split.

COMPANY RATINGS

	Rating		Rating		Rating
Ohio Oil	B1	Richfield Oil	B2	Sinclair Oil	B2
Phillips Petroleum	A1	Royal Dutch	A2	Skelly Oil	B2
Plymouth Oil	D3	Shell Oil	A2	Socony-Mobil Oil	A1
Pure Oil	B4			Standard Oil (Calif.)	A1

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

second quarter. President Donnell said that the principal factor for the improvement was an increased level of crude oil production which rose more than one million barrels to 10,694,000 barrels.

● **Phillips Petroleum** continued to turn in above-average earnings. Although its crude oil production in the United States was down slightly, the company increased its output and sales of natural gas by a substantial margin. This plus increased sales of petrochemicals enabled Phillips to increase first-half profits by about 7 percent to $1.60 per share.

● **Louisiana Land and Exploration,** which possesses just about the best earnings record of any domestic oil producing and royalty company, continued to improve its record. First-half earnings were up nearly 10 percent to $1.32 per share. This reflected a 10 percent increase in oil production on the company's properties, and a rise in production of natural gas from 13.7 billion cubic feet to 18.6 billion cubic feet. The number of wells drilled on the company's property was also up sharply, rising from 80 to 113. It is believed that a number of these wells found important new producing strata or perhaps even may have reached entirely new fields.

● Another producing company which did extremely well during the first half of 1960 was **Argo Oil.** It raised crude oil production from 12,600 barrels daily to 14,300 barrels daily. Largely as a result of this improvement, earnings increased about 25 percent to $1.44 per share.

● One of the smaller but faster growing integrated oil companies in the domestic petroleum industry is **Murphy Corporation.** Starting out as only a producer a few years ago, it has since branched out into refining and marketing as well as foreign exploration. Its earnings in the second quarter of the year advanced from 23 cents per share to 31 cents per share, and for the first half of the year it reported a 20 percent increase in profits to 70 cents a share.

● **Honolulu Oil Corporation** was another company which turned in excellent earnings during the second quarter of 1961, boosting them by nearly 50 percent to 91 cents per share. This increase reflected largely an expansion in crude oil output by 4500 barrels per day to 50,400 barrels per day.

Statistical Data on Leading Oil Companies—(Continued)

	1st 6 Months: Net Sales 1960 (Millions)	Net Sales 1961 (Millions)	Net Profit Margin 1960 %	Net Profit Margin 1961 %	Net Per Share 1960	Net Per Share 1961	Full Year: Earned Per Share 1959	Earned Per Share 1960	Cash Earn. Per Share 1960	Indic. 1961 Div. Per Share *	Price Range 1960-61	Recent Price	Div. Yield %
STANDARD OIL OF INDIANA W.C. (mil.) '59–$545.2; '60–$582.7	N.A.	N.A.	N.A.	N.A.	1.81	2.07	3.90	4.05	9.62	1.40	55⅞-35	51	2.7
STANDARD OIL OF N.J. W.C. (mil.) '59–$1,704.4; '60–$1,758.4	4,299.0	4,488.0	7.3	8.9	1.45	1.78	2.91	3.18	5.68	2.25	50½-38	46	4.9
STANDARD OIL OF OHIO W.C. (mil.) '59–$72.6; '60–$79.2	193.1	203.6	5.6	5.7	2.19	2.33	5.02	4.94	11.59	2.50	59¼-44½	58	4.3
SUN OIL W.C. (mil.) '59–$114.3; '60–$131.4	366.8	401.0	5.4	6.0	1.63	1.84	3.48	3.78	8.55	1.00	57 -42¾	56	1.7
SUNRAY-MID CONT. OIL W.C. (mil.) '59–$94.3; '60–$91.6	228.4	238.5	8.2	9.0	.95	1.13	2.25	2.10	5.48	1.40	29 -20½	28	5.0
SUPERIOR OIL CO. (CALIF.) W.C. (mil.) '59–$25.4; '60–$37.1	95.1[1]	111.2[1]	19.5	15.4	43.96[1]	40.71[1]	45.84	51.19	171.67	7.50	1,464 -855	1,285	5.8
TEXACO W.C. (mil.) '59–$652.4; '60–$681.8	N.A.	N.A.	N.A.	N.A.	1.46	1.61	2.92[3]	3.17[3]	5.52[3]	1.60	54⅝-32¼	52	3.0
TEXAS GULF PRODUCING W.C. (mil.) '59–$10.2; '60–$13.6	N.A.	N.A.	N.A.	N.A.	.60	.60	1.04	1.16	2.52	.60	46 -21⅛	37	1.6
TEXAS PACIFIC COAL & OIL W.C. (mil.) '59–$11.0; '60–$11.5	13.2	13.5	27.5	26.0	1.02	.90	1.85	2.00	3.74	1.20	35¾-20½	31	3.8
TIDEWATER OIL CO. W.C. (mil.) '59–$89.7; '60–$86.6	287.7	298.9	6.3	4.9	1.16	.94	2.23	2.22	6.59	—	28¾-16⅝	22	—
UNION OIL W.C. (mil.) '59–$164.0; '60–$140.3	258.9	265.4	5.1	6.3	1.57	1.92	3.35	3.96	11.28	2.00[2]	63½-33⅛	53	3.5

*—Based on latest dividend reports.
W.C.—Working capital.
N.A.—Not available.

1—9 months ended May 31.
2—Plus stock.
3—Adj. for 2 for 1 split.

COMPANY RATINGS

	Rating		Rating		Rating
Standard Oil of Ind.	A2	Sunray-Mid Cont. Oil	B2	Texas Gulf Prod.	B2
Standard Oil N.J.	A1	Superior Oil of Calif.	B1	Texas Pac. Coal. & Oil	B2
Standard Oil of Ohio	B2	Texaco	A1	Tidewater Oil	C4
Sun Oil	B2			Union Oil	B1

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

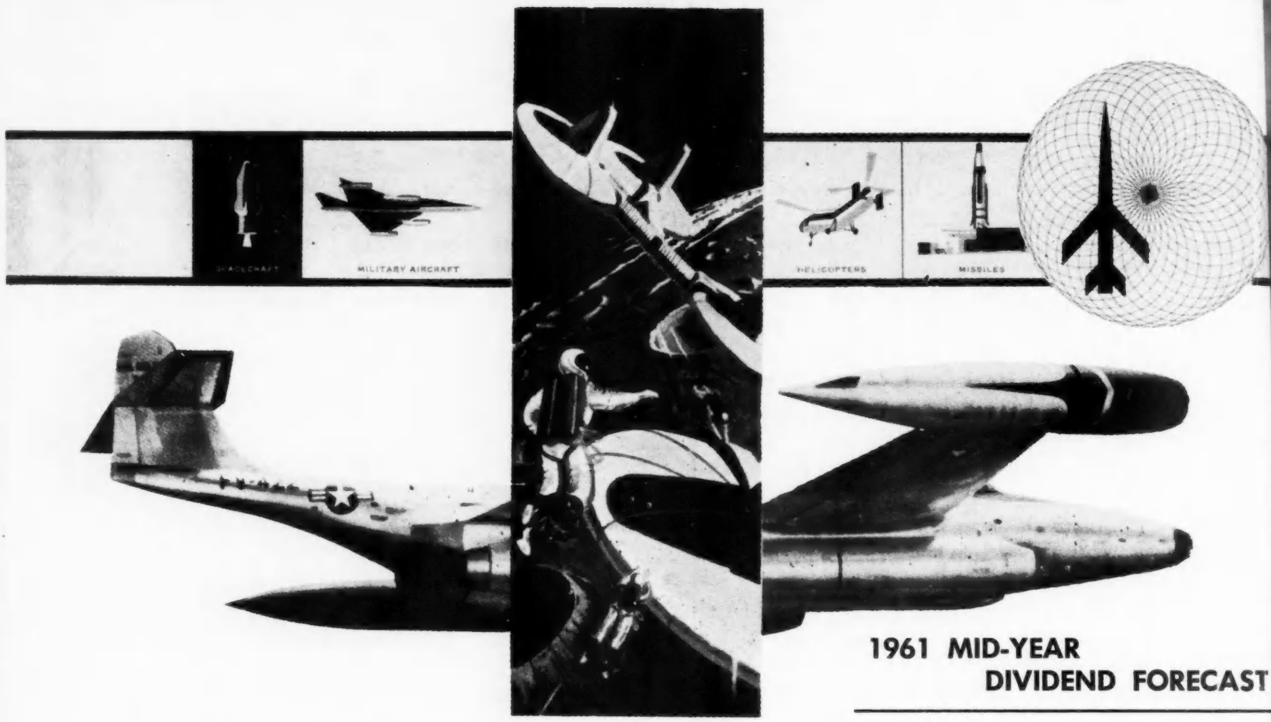
Cloud Over Mergers

► Mention of **Honolulu** naturally brings to mind that company's proposed sale of assets to **Standard of Indiana** and to **Tidewater Oil Company.** This proposed sale was moving along smoothly until a few weeks ago when the Internal Revenue Service issued a special release in which it stated that it was considering a change in its position with respect to the income tax treatment of sales and purchases of oil properties. This put a cloud over Honolulu's proposed sale but the company is going ahead with plans for the sale and has filed a comprehensive statement of its position with the Internal Revenue Service.

● The Internal Revenue release has also clouded the outlook for other proposed mergers, including the sale of **Republic Natural Gas** to **Socony-Mobil Oil Corporation.** Further, **Union Oil Company** has indicated that it is examining the operations of **Delhi-Taylor Oil Corporation** with the prospect in mind of possibly acquiring that company.

● One merger that does have the approval of all government authorities, including the Internal Revenue Service as well as the Department of Justice, is the acquisition of **Standard Oil Company of Kentucky** by **Standard Oil Company of California.** Stockholders are scheduled to vote on this merger at a special meeting on September 17. The reasons that the management of Standard Oil Company of Kentucky have given for the sale are revealing of the problems that confront the oil industry at present, and also are believed to be representative of the problems faced by many other companies.

Management stated, "For some time your Board of Directors has appreciated the fact that your Company has been in a difficult position in competing profitably with its major competitors. All of these competitors are much larger than our Company. They are fully integrated, which means they have crude oil reserves, refineries, and research and development facilities. We are entirely a marketing company. While we sell a full line of products in a manner similar to the marketing branches of our major integrated competitors, we are not in a position to rely on products *(Please turn to page 653)*



1961 MID-YEAR DIVIDEND FORECAST

A Realistic Appraisal of the . . .

AIRCRAFT COMPANIES —PLANE and MISSILE MAKERS

— With Earnings-Dividend Forecasts

By ROBERT LOEBELSON

— This feature covers the position of the individual companies — with facts and figures, interestingly prepared in this expert study, to show the status and prospects for the various companies in the light of shift and change in defense orders.

QUICK Congressional action on President Kennedy's request for $3.5 billion more in defense funds to meet the Berlin crisis, coupled with the 17 orbits made by the Soviet Major Gherman Titov in Vostok II, mean that the aerospace industry is in for rising sales volume.

Although much of the extra $3.5 billion asked by the President will be used for civil defense activities and conventional weapons to fight limited wars, the military budget for the fiscal year ending next June 30 will include a total of $16.6 billion in new money for hardware. The Army will get $2.5 billion, the Navy $6.5 billion and the Air Force will receive $7.6 billion to place orders for planes, missiles, ships, electronics and other materiel.

In addition, the fiscal 1962 budget for the National Aeronautics and Space Administration now stands at nearly $1.8 billion, including $1.3 billion to support research and development and for hardware for civilian space activities.

Bulk of Funds Will Go Into "New" Weapons

All of the traditional aerospace companies will share in the Pentagon/NASA programs to some extent, either as prime contractors to the military services or the Space Agency or as subcontractors. But the non-aviation firms (electronics, rubber, automotive) which have participated in aircraft, missile and space projects over the past five years will also get a piece of the Defense Department and NASA dollar.

But even within the aerospace industry, there will not be an equitable division of the available dollars. The companies which made their move into the space/electronics field in the middle 1950's will continue to get the bulk of the business. And the

Statistical Data on Leading Aircraft Companies

	1st 6 Months Net Sales 1960 (Millions)	Net Sales 1961 (Millions)	Net Profit Margin 1960 %	Net Profit Margin 1961 %	Net Per Shares 1960	Net Per Shares 1961	Full Year Earned Per Share 1959	Earned Per Share 1960	Cash Earn. Per Share 1960	Indic. 1961 Div. Per Share *	Price Range 1960-61	Recent Price	Div. Yield %
AVCO CORP. .... W.C. (mil.) '59–$91.5; '60–$98.3	$164.8	$157.9	3.1%	3.9%	$.57	$.60	$.93	$.97	$1.63	$.60	27⅞-11¾	27	2.2%
BEECH AIRCRAFT .... W.C. ,mil.) '59–$28.8; '60–$26.5	78.5[2]	53.3[2]	4.7	3.2	1.40[2]	.64[2]	1.58[1]	1.80[1]	2.07[1]	.60	27¼-17¼	21	2.8
BOEING CO. .... W.C. (mil.) '59–$199.3; '60–$200.0	817.4	823.9	1.2	1.9	1.29	2.03	1.65	3.07	5.71	1.60	55⅝-23	53	3.0
CESSNA AIRCRAFT .... W.C. (mil.) '59–$265.1; '60–$331.9	84.2[2]	70.3[2]	7.4	6.8	1.96[2]	1.46[2]	2.47[1]	2.24[1]	2.85[1]	1.00	46¼-26	39	2.5
CURTISS-WRIGHT .... W.C. (mil.) '59–$126.5; '60–$124.6	52.1[3]	80.2[3]	3.7	1.5	.22[3]	.12[3]	1.71	1.15	2.32	1.00	31⅛-14⅝	20	5.0
DOUGLAS AIRCRAFT .... W.C. (mil.) '59–$156.9; '60–$121.9	566.5	431.9	d1.5	.7	d2.30	.84	d3.86	d5.09	—	—	42⅜-27	40	—
FAIRCHILD STRATOS CORP. (†) W.C. (mil.) '59–$13.2; '60–$8.2	45.5	39.7	d1.2	4.1	d.19	.54	.36	d.26	—	—	13⅞- 5½	13	—
GENERAL DYNAMICS .... W.C. (mil.) '59–$265.1; '60–$221.9	979.7	1,010.8	1.2	d3.9	1.22	d3.95	3:12	d2.71	.30	—	53⅜-31½	37	—
GRUMMAN AIR ENG. .... W.C. (mil.) '59–$31.6; '60–$32.1	154.0	155.8	2.6	1.9	1.88	1.38	2.24	3.27	5.29	1.50	40 -22⅛	38	3.9
LING TEMPCO VOUGHT (††) . W.C. (mil.) '59–$24.1; '60–$22.5	4	4	4	4	4	4	4	4	4	—	— —	—	—
LOCKHEED AIRCRAFT .... W.C. (mil.) '59–$75.5; '60–$57.6	657.0	679.1	d8.4	1.3	d7.64	1.24	1.21	d5.80	—	.30	50¼-18⅝	51	.5

*—Based on latest dividend reports.
d—Deficit.
†—Formerly Fairchild Engine & Airplane.
††—After acquisition of Chance Vought Corp., 6/30/61, merger effective 8/31/61.
1—Years ended Sept. 30.
2—9 months June 30.
3—First quarter.
4—Merger effective August 31; no pro-forma financial reports available.

COMPANY RATINGS

	Rating		Rating		Rating
Avco Corp.	C1	Curtiss-Wright	C4	Grumman Airo.	C2
Beech Aircraft	B4	Douglas	B1	Ling-Temco-Vought	C2
Boeing Co.	B1	Fairchild Stratos	C1	Lockheed Aircraft	C1
Cessna Aircraft	B2	General Dynamics	B4		

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earning trend. 3—Earnings up from the lows. 4—Lower earnings trend.

ones which continued to think of aircraft and aircraft engines as their prime source of income will barely participate. The latter group will continue in the defense dollar doldrums while the diversified aircraft-missile-space companies will continue to make military money.

Investors who read about renewed emphasis on manpower and weaponry for conventional wars would do well to remember one thing: **Most of the defense dollars are being spent for deterrent weapons—ballistic missiles, nuclear-powered submarines, a ground alert for manned bombers—even while the buildup of conventional forces is under way.**

Hazardous Conditions Still Persist

But even while new defense contracts and awards from NASA serve to build up the backlogs of individual companies, investors would be making a mistake if they did not take three important considerations into account:

(1) For firms which are in the commercial as well as the military field, new orders for jet airliners have been comparatively slow in coming. While most of the development and repair costs have already been written off by Boeing, Douglas, Lockheed and Convair, the slowness of new orders means the break-even and profit-making point on their turbine-powered airliners is still in the future.

(2) The military services have been placing new emphasis on reliability. All services, especially the Air Force, have been talking in terms of some sort of financial penalty for firms whose products do not live up to their advance billing. But this feature is to be accompanied by a better profit margin for companies whose weapons are delivered ahead of schedule with a high degree of reliability.

(3) In the commercial field, several companies **(North American, Lockheed, Boeing, Douglas, Convair)** would like to be the favored choice to build a 2000-mph jet airliner for use in the 1970's. The government has promised to help underwrite development costs but heavy outlays from these companies will still be required.

It is expected that only one manufacturer will be able to make money turning out Mach 3 airliners. If two or more firms compete for this business, the limited market is likely to make the Mach 3 transport field unprofitable for all.

These considerations, plus the continued tendency by the Pentagon to kill projects midway in the

Statistical Data on Leading Aircraft Companies—(Continued)

	1st 6 Months: Net Sales 1960 (Millions)	Net Sales 1961 (Millions)	Net Profit Margin 1960 %	Net Profit Margin 1961 %	Net Per Share 1960	Net Per Share 1961	Full Year: Earned Per Share 1959	Earned Per Share 1960	Cash Earn. Per Share 1960	Indic. 1961 Div. Per Share *	Price Range 1960-61	Recent Price	Div. Yield %
MARGUARDT CORP. .... W.C. (mil.) '59?$8.1; '60–$9.3	$14.1[9]	$11.3[9]	.6%	1.4%	$.07[9]	$.11[9]	$.96	$.86	$1.77	$—	40¼-16¼	21	—%
MARTIN CO. .... W.C. (mil.) '59–$41.0; '60–$48.7	301.9	408.2	2.5	3.3	1.24	2.16	2.17	2.71	4.42	.75	39½-18	38	1.9
MC DONNELL AIRCRAFT .... W.C. (mil.) '59–$27.5; '60–$35.0	330.3[5]	260.8[5]	2.6	3.5	2.57[5]	2.68[5]	3.05[1]	3.55[1]	5.22[1]	1.00	39½-15⅝	38	2.6
NORTH AMERICAN AVIA. .... W.C. (mil.) '59–$134.6; '60–$130.1	717.4[6]	893.1[6]	2.3	2.0	2.03[6]	2.25[6]	3.78[2]	2.87[2]	4.94[2]	2.00	56⅝-29⅝	56	3.5
NORTHROP AIRCRAFT .... W.C. (mil.) '59–$22.3; '60–$25.0	170.1[7]	196.7[7]	3.1	3.1	2.90[7]	3.22[7]	4.01[3]	4.22[3]	6.36[3]	1.60	67⅜-24¾	65	2.4
PIPER AIRCRAFT .... W.C. (mil.) '59–$7.6; '60–$15.1	32.1[6]	25.1[6]	9.0	3.2	2.72[6]	.75[6]	3.00[2]	3.29[2]	3.75[2]	1.10	60⅜-42⅜	54	2.0
REPUBLIC AVIATION .... W.C. (mil.) '59–$32.8; '60–$32.0	67.6	172.2	1.2	3.0	.59	3.59	2.37	3.29	4.93	2.00	51¾-19⅞	49	4.0
ROHR AIRCRAFT .... W.C. (mil.) '59–$24.4; '60–$20.6	151.3[7]	121.3[7]	5.3	3.0	.43[7]	1.94[7]	1.40[3]	d1.40[3]	'—	1.00	27½ 12⅝	27	3.6
RYAN AERONAUTICAL .... W.C. (mil.) '59–$22.3; '60–$25.0	51.0[8]	45.8[8]	1.7	2.5	.54[8]	.71[8]	1.72[4]	1.76[4]	2.88[4]	.20	27¼-14¼	26	.7
UNITED AIRCRAFT .... W.C. (mil.) '59–$161.9; '60–$201.7	543.2	565.7	1.8	.9	1.46	.67	4.26	1.95	6.87	2.00	56⅛-32⅜	53	3.7

*—Based on latest dividend reports.
d—Deficit.
1—Years ended June 30.
2—Years ended Sept. 30.
3—Years ended July 31.
4—Years ended Oct. 31.
5—9 months Mar. 31.
6—9 months June 30.
7—9 months Apr. 30.
8—6 months Apr. 30.
9—1st quarter.

COMPANY RATINGS

Marquardt Corp.	C1	North Am. Av.	B1	Republic Av.	B1
Martin Co.	B1	Northrop Aircraft	B1	Rohr Aircraft	C1
McDonnell Aircraft	B1	Piper Aircraft	B2	Ryan Aero.	C2
				United Aircraft	B3

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earning trend. 3—Earnings up from the lows. 4—Lower earnings trend.

development cycle, make investment in aircraft stocks hazardous at best. But the probable continuation of crises in various parts of the world as Premier Khrushchev persists in sabre-rattling foreshadows extensive production by the various aerospace companies.

Boeing Has its Fingers in Many Pies

Circumstances among the various companies are so different that it seems best to terminate the general discussion at this point and devote the remainder of the article to a detailed examination of the individual components.

Boeing seems to be one of the most solid companies in the industry, with a good mixture of military and commercial business. **Although Defense Secretary Robert S. McNamara has repeatedly stated he has no intention of using the extra half billion Congress voted for bombers to buy extra B-52's, the B-52 line will continue at Wichita through 1962.**

● In addition, Boeing will sell extra B-52 spares to sustain the Stratofortress ground and air alert. Sales of the commercial 707 jetliner (and its military counterparts, the KC-135 jet tanker and the C-135 jet cargoliner) are continuing and Boeing also holds orders for a substantial number of medium-range 727 three-engine jetliners. ● The solid-fuel Minuteman ICBM is a firm part of the Air Force's strategic deterrence program, both as a fixed-base missile and as one fireable from railroad cars. ● The Dyna-Soar research vehicle may be the forerunner of a manned orbiting bomber to succeed the B-52, especially since the Mach 3 B-70 bomber has been cut back to three prototypes. ● Deliveries of the Bomarc II interceptor missile are continuing. Overall, Boeing's diversified line of products at Seattle, Renton, Wash., and Wichita (including industrial gas turbine engines) should result in a continuing high level of sales.

A Strong Position in Rocket Engines

North American Aviation is strong in the rocket engine field, turning out liquid rockets for the various Atlas ICBM's. NAA holds contracts also to produce the F-1, eight of which will be used in the Saturn first-stage space booster and the H-1, a 1½ million pound thrust engine. Eight H-1's will be clustered for the first stage of Nova, the vehicle which is destined to get a U.S. spaceman to the moon. ● The Autonetics Division is a potent force in the electronics guidance field for both missiles and submarines. ● The B-70, although no longer funded as a complete weapon system, is still the most advanced U.S. bomber under development and

may well get substantial funding next fiscal year. ● Orders for the T-39 jet trainer keep trickling in from the USAF, and North American is still undecided as to whether to offer the same plane to corporations as a business jet. ● The A3J Vigilante, built at Columbus, is a large procurement item in the Navy's budget. ***These assorted projects should serve to keep NAA's sales and earnings at a high level.***

Phase-outs Dim Hope for Douglas Dividend Resumption

Douglas has not been too successful in obtaining reorders for its DC-8 jetliner and has drawn a complete blank on the sale of the cargo version, the DC-8F. ● The C-133 turboprop cargo plane for the USAF is being phased out at Tulsa and the Navy Missileer was canceled early in the Kennedy Administration. ● Production of the Nike-Hercules anti-aircraft missile continues at Charlotte for the Army but this contract is also tapering off and there is still no sign the Pentagon will approve production of the Nike-Zeus anti-missile missile. ● The Skybolt air-launched ballistic missile, due to be fired from B-52's, is one of the few bright hopes for Douglas, although the Thor IRBM is still being used by NASA for space projects and Douglas holds Space Agency contracts to assemble Saturn upper stages. ***It seems unlikely that Douglas will resume dividend payments even though most of the DC-8 development costs have already been written off.***

Lockheed Recovering from Electra Failures

Lockheed, which had a disastrous time last year when it had to pay out more than $15 million to fix the wings of the commercial Electra turboprop, has bounced back. ● Renewed emphasis on conventional warfare means the USAF will buy substantial numbers of C-130B and C-130E turboprop cargo planes and the Navy will boost orders for the P3V-1 antisubmarine patrol aircraft. ● Lockheed-Marietta also won the USAF/FAA competition for a turbofan-powered jet cargo plane, the C-141, and this project alone should result in at least $1 billion in new business over the next few years. ● The Polaris fleet ballistic missile is now scheduled for use in 29 nuclear-powered submarines (16 per sub) and the Sunnyvale, Calif., plant is also prime contractor on the Discoverer series of tests, as well as the Samos and Midas detection satellites—two of the USAF's highest priority projects. ● The C-140 utility jet is also in production for the USAF and for corporate use at Marietta, while Electra output continues at Burbank. ● Lockheed's electronics and boat-building subsidiaries also show promise of better earnings in the future. ***Recent resumption of Lockheed dividends appears to be well warranted.***

Heavy Research Restricting United's Dividends

United Aircraft, which got into the missile space field rather late, will continue to deliver large numbers of Pratt & Whitney J57 and J75 engines for B-52's, 707's, KC-135's and other military and civil aircraft, as well as J52's for the North American Hound Dog air-to-surface missile. But substantial sums are being spent on research and development by the Hamilton-Standard Division and United Technology Corp., the company's rocket engine subsidiary. ●These R&D expenditures should start paying off this year because large contracts for solid-fuel rocket engines are expected to start flowing to UTC from the Pentagon and NASA. The Sikorsky Division is still turning out large numbers of conventional and gas turbine helicopters for military and civil use. ***But the company's necessary emphasis on research—$40 million last year, $50 million in 1961—will mitigate against larger dividends.***

Convair a Drag on General Dynamics

General Dynamics Corp. is roughly in the same position as United. Some segments, including the Electric Boat operation at Groton, Conn. (which will build many of the 29 Polaris-firing subs), are profitable. But the Convair operation at San Diego and Fort Worth is a headache. Convair president J. V. Naish quit in February and the San Diego operations have been placed under C. Rhoades McBride, GD's executive vice president. ● But losses continue on the commercial jetliners, the 880 and 990, primarily because of lack of new orders, and the Fort Worth plant seems unlikely to get a new order for the supersonic B-58 bomber beyond the 112 now on order. ● GD-Astronautics, building the Atlas missile and space booster, is making money and the Stromberg-Carlson electronics facilities should benefit as the Navy steps up anti-submarine warfare spending. ***But GD's position as one of the Pentagon's largest contractors should enable the company to resume suspended dividend payments once some cash has been accumulated and the remaining losses on the 880/990 jetliners have been written off.***

Martin Benefiting from its Early Conversion

Martin, on the other hand, is not only completely out of the airplane business but also removed itself from the commercial airliner field nearly a decade ago. ● The Baltimore firm is now benefiting from its early entrance into the missile/space program, with sales and earnings continuing to climb. ● Production includes the USAF Titan ICBM at Denver (the Titan is also visualized as a booster for Dyna-Soar and as upper stages for space projects); the USAF Mace at Baltimore; the Army Pershing, Army Lacrosse, USAF Missile Master control system; Air Force/Navy Bullpup and various electronic devices at Orlando, Fla. ● The Navy, incidentally, still foresees a requirement for a jet seaplane for anti-submarine use in the future, and Martin's past experience with the now-defunct P6M SeaMaster program should give the company an edge in that future competition.

Smaller Companies

Contrasting with Martin, **Republic** is still pretty much a one-airplane company, but the USAF seems inclined to keep on buying the Mach 2 F-105 fighter-bomber to support ground troops. The Farmingdale, L. I., concern was one of the major beneficiaries when President Kennedy sought $3.5 billion to beef up conventional warfare capabilities.

Fairchild-Stratos has found itself unable to find many new or repeat buyers for its F-27 turboprop transport but has hopes the Army will order large-scale production of its USD-5 surveillance drone.

Grumman has been very successful in selling its turboprop Gulfstream to corporations, the AO-1 Mohawk to the Army and several different search and rescue, tracking and anti-sub planes to the Navy. Cancellation of the Eagle missile caused some concern at Bethpage, L. I., because Grumman had been slated to build *(Please turn to page 647)*

1961 MID-YEAR DIVIDEND FORECAST

INSURANCE STOCKS AS INVESTMENTS TODAY

By KENNETH MacTEAR

— The significant changes and legal decisions that enable multiple coverage and mergers in the insurance field and warrant re-examination of these stocks . . . companies in the best position.

WALL STREET has been conducting a love affair with the usually staid insurance stocks this year. Since January, insurance shares have outperformed the general market averages. Measured by the Alfred M. Best Co. index of insurance stocks, fire and casualty companies have appreciated 23% and life insurance shares 55% in 1961. During the past eight months, some life stocks, such **U.S. Life,** have doubled in price, while in the fire and casualty field stocks such as **Aetna Casualty, Federal Insurance** and **U.S. Fidelity and Guaranty** have risen 45%.

In July alone, **Insurance Company of North America** advanced 9% and **St. Paul Fire and Marine** 8.5%. The outstanding performance has been among the life insurance stocks, however. In the month of July, **Gulf Life** rose 25%, **Monumental Life** 16.6%, **Connecticut General** 14.6% and **Travelers Insurance** 13.8%.

Improved Conditions Justify a "New Look"

These spectacular gains have come after four years of depressing influences on insurance equities. Since 1957 the fire and casualty industry has been slowly recovering from the worst underwriting cycle in its history. At times, this recovery has been interrupted by unusual weather occurrences such as Hurricane Donna in September, 1960, and the severe winter early this year. The life insurance industry has also begun to overcome the unfavorable accident and health experience during the recent five years. Finally, as 1960 life insurance earnings reports came in this year, investors who had feared the adverse influence on life earnings of the increase in Federal Tax liability from the 1959 life insurance tax law found their fears considerably exaggerated.

Based on the preliminary reports of operations of thirty fire and casualty companies for the first six months of 1961, premiums written increased 3%. But all has not been rosy. Because of the unusually severe winter in the first quarter of 1961, fire losses were 12% above 1960. As a result, property claims rose and the loss ratio increased 3½ points over 1960. Events such as Hurricane Donna, storms in the Southwest and the bad winter in 1961 have marred what otherwise appears to be a fundamentally improving underwriting cycle.

Data on Leading Life Insurance Company Stocks

	1961 Price Range High	1961 Price Range Low	Recent Market Price	1960 Adjusted Earnings [1]	Present Dividend Rate	Yield	Dividend as % of Adjusted Earnings	Price Times Adjusted Earnings	Est: Total Equity Value at 12/31/60 [2]	Price as % of Equity Value	Increase in Life Insur. In Force 1950-60
Aetna Life	130	98	128	$6.54	$1.60	1.3%	24.5%	19.6	$87.21	147%	160%
Commonwealth Life	42	21	42	2.15	.24	.6	11.2	19.5	17.11	245	190
Connecticut General Life	273	200	262	9.20	1.40	.5	15.2	28.5	119.02	220	217
Continental Assurance	198	125	180	4.54	1.20	.7	26.4	39.6	50.16	359	348
Franklin Life	121	70	111	4.07	0.50	.5	12.2	29.7	28.64	388	335
Gulf Life	35	18	35	2.16	3.60	1.7	27.8	16.2	18.34	191	157
Jefferson Standard Life	68	48	65	3.46	1.00	1.5	28.9	18.8	39.51	165	151
Kansas City Life	2150	1340	21.50	137.72	14.00	.7	10.2	15.6	1643.74	131	67
Liberty National Life	79	44	79	2.58	.35	.4	13.6	30.6	14.50	545	220
Life Insurance Co. of Va.	97	56	97	6.25	1.20	1.2	19.2	15.5	70.10	138	115
Lincoln National Life	145	100	142	7.56	.80	.6	10.5	18.8	80.81	176	175
Monumental Life	74	58	70	6.44	1.20	1.7	18.6	10.9	66.54	105	75
National Life & Accident	182	114	182	8.43	.60	.3	7.1	21.5	79.10	230	128
Travelers Insurance	140	100	140	7.60	1.60	1.1	21.1	18.4	87.54	160	156
United States Life	79	42	79	2.31	.20	.3	8.7	34.2	17.51	451	287
Average of 15 Companies						.9	17.0%	22.5		243%	185%

1—Includes equity in increase in life insurance in force, valued at $15 per thousand for ordinary, $5 per thousand for group, and 50% of annual premiums for industrials.

2—Includes equity in life insurance in force at same valuation as in 1.

One observer has estimated that Donna alone raised the industry's loss ratio in 1960 by 1½ points. The first quarter is seasonally the poorest of the year for property underwriting, as the cold weather always creates greater fire and driving hazards. With the fundamental underwriting cycle continually improving and the seasonally worst underwriting months now behind the industry, the outlook for the balance of 1961 is relatively favorable.

Investment operations continued to help offset the underwriting record to some degree in the first half of 1961. Net investment income grew 9%, while the common stock portfolios of fire and casualty companies showed marked appreciation. As a result, surplus expanded 9% and assets increased 5% for the six months ended June 30, 1961.

Recovery from 1956-57 Heavy Loss Period

The main determinant of the underwriting profit cycle is the rates charged on the various insurance coverages. As these rates are based on loss experience over a recent past period, a lag usually ensues before rates catch up with experience. In 1956-57 the industry experienced its highest underwriting losses in history. Hardest hit was casualty underwriting, where an injured party can claim settlement for injury or damage. Such cases consume a long time in settlement, and advancing inflation tends to increase jury awards out of proportion to original premium rates. As a result, auto insurance underwriting, which over the past few years has comprised 40% of the industry's business, has suffered severe losses, most of which are concentrated in auto bodily-injury coverage. But while inflation does create a lag in rates, the consequent underwriting losses are somewhat offset by substantial appreciation of the fire and casualty companies' large common stock portfolios, correspondingly increasing the stockholders' equity.

Rate increases, based on the industry's recent bad experience, have brought about an improvement in the underwriting cycle since its trough in 1957 and are expected to continue to do so into 1962. Working through the National Bureau of Casualty Underwriters, the industry has been largely successful in influencing state insurance authorities to revise rates in the past two years. Since 1958 almost all states have granted rate increases averaging 14-17% on basic auto coverage, and many states have introduced Safe Driver Plans which reward better drivers with lower premium rates and penalize the risk drivers. On March 1, 1961, New York State put a plan into operation which provides a 10% rebate for good drivers and a 150% penalty for risk drivers. It is estimated that the plan will increase total automobile premiums 9.3% and add $34 million extra in premiums paid in the state. That is approximately equivalent to the amount lost on car liability insurance in New York State in 1959. Such safe driver plans were started in 19 states altogether in 1960, and the trend will continue. These plans are also an effective means of combating the competition of direct writers, such as **Allstate**, who operate independently of Bureau rates. These independents have recently been capturing business from the old-line agency companies at a rapid clip.

Investment Income Also Important

As the industry overcomes its underwriting problems, it has managed to protect the stockholder's dividend with its rising investment income. Over the decades, fire and casualty companies have paid dividends largely with investment income from their substantial equity portfolios. A long record of dividend consistency has been established. Net investment income rose 10% in 1959 and 11% in 1960. Dividend payments last year rose approximately 10%. With net investment income up 9% in the first six months of 1961 the outlook for another round of dividend increases is excellent.

More important than underwriting profits and investment income in analyzing the immediate outlook for fire and casualty companies is a court ruling made in New York last June. In the last seven-

Statistical Comparison — Fire & Casualty Insurance Company Stocks

	Net Investment Income First Six Months			1960				Estimated		Loss and Expense Ratio First Six Months	
	1961	1960	Year 1960	Net Operating Earnings	Dividend Rate	Recent Price	Yield	Liq. Value 12/31/60	Price as % Liq. Value	1961	1960
Aetna Insurance	$4.25	$3.92	$8.05	$9.58	$3.00	123	2.4%	$137.65	89%	100.4%	96.7%
American Insurance	1.08	1.08	2.18	2.35	1.30	31	4.2	36.60	85	102.3	97.8
Boston Insurance	N.A.	1.47	3.01	0.63	1.80	34	5.3	54.35	63	N.A.	100.6
Continental Casualty	.96	.89	2.30	3.00	1.50	103	1.5	38.98	264	97.4	97.3
Continental Insurance	1.84	1.80	3.59	1.31	2.20	64	3.4	82.71	77	106.7	103.7
Federal Insurance	N.A.	.88	1.91	2.35	1.00	74	1.4	42.06	175	N.A.	92.6
Firemans Fund	N.A.	1.98	4.09	4.12	2.00	64	3.1	71.41	90	N.A.	99.9
Glens Falls	N.A.	1.64	3.33	1.51	1.00	44	2.3	64.02	69	N.A.	100.9
Great American	2.09	2.07	4.25	3.79	2.00	55	3.6	85.52	64	107.7	97.0
Hanover Insurance *	N.A.	2.33	4.88	2.42	2.15	45	4.8	68.48	66	N.A.	101.8
Hartford Fire	N.A.	1.21	2.57	2.87	1.10	74	1.5	49.03	151	N.A.	97.4
Home Insurance	1.95	2.07	3.85	3.73	2.20	58	3.8	85.64	68	105.1	99.7
Insurance Co. of N.A.	1.44	1.39	2.92	3.40	1.80	107	1.7	60.55	177	100.5	95.7
Maryland Casualty	1.64	1.50	3.18	3.82	1.70	42	4.0	50.76	83	101.6	97.5
National Union	2.09	1.86	3.83	2.50	2.20	46	4.8	61.90	74	N.A.	102.3
New Hampshire	3.12	2.70	4.87	1.95	2.20	61	3.6	92.15	66	99.1	97.1
Northern Insurance	2.51	1.58	3.24	0.53	1.50	45	3.3	67.47	67	106.8	100.7
Phoenix Insurance	3.50	3.36	7.06	3.58	3.00	117	2.6	165.85	71	N.A.	97.5
Reliance Insurance **	N.A.	2.28	4.30	5.27	2.20	63	3.5	83.99	75	N.A.	96.0
St. Paul Fire & Marine	1.32	1.19	2.60	3.12	1.44	78	1.2	52.77	148	102.3	100.8
Springfield Insurance Co.	N.A.	.99	1.68	0.55	1.00	38	2.6	47.21	80	N.A.	101.7
U.S. Fidelity & Guaranty	1.37	1.24	2.66	4.01	1.20	59	2.0	48.29	122	97.1	97.3

N.A.—Not available.
*—Pro forma combined figures reflecting merger with Massachusetts Bonding & Insurance Co. 6/30/61.
**—Reliance Insurance Co. assumed control of Standard Accident Insurance in 1961.

teen years, the seeds of two revolutions in the insurance industry were planted in the month of June. Both were the product of court decisions, the first being a U.S. Supreme Court decision in 1944 and the second being a New York State Appeals Court ruling in 1961.

New York Court Decision Advances Multiple Line Coverage

In 1944 the Supreme Court of the United States declared insurance was interstate commerce. This decision led to the growth of multiple-line insurance companies, writing both fire and casualty coverage. The last state to change its charter to permit this was Ohio, in 1955. Comprehensive home-owners' policies, in which many types of insurance are combined in one "package" policy suitable for a home-owner, thus became available. As this revolution developed, members of the industry have sought further diversification in the life field, in order to be able to offer all types of insurance.

A move into the life field was usually permitted casualty companies under state laws, but under New York and Massachusetts law life companies were denied the similar right to enter the fire and casualty field. To qualify for operation in these states, a life company could not maintain a fire and casualty affiliate — though Aetna Life and Travelers Insurance, which have property insurance subsidiaries, have, in fact, operated in New York State for years. In 1956, Connecticut General proposed acquisition of National Fire of Hartford, and the New York State Insurance Department ruled that by so doing it would lose its license to operate in that state. Connecticut General contested the ruling, though in the meantime National Fire of Hartford was acquired by Continental Casualty.

On June 2, 1961, the New York Court of Appeals finally ruled in the Connecticut General case that an out of state life company could acquire control of a fire and casualty company without endangering its right to do business in the state. Although no decision by the Massachusetts courts has yet been reached, a favorable decision appears likely.

Deeper Invasion of Fire and Casualty Fields Anticipated

Observers now foresee a wave of future acquisitions by life insurance companies of fire and casualty subsidiaries. Before the ruling in June, they had been detoured from this path by the threat of being exiled from the New York market. Wall Street now envisions the entrance of not merely the stock-held life companies but also the giant billion dollar mutual life companies into the fire and casualty field. For old-line fire and casualty companies it means the threat of competition on a massive scale.

Now a life company can offer "one stop" insurance — a package of all types of coverages. Such a combination insurance package of life, accident and health and home-owners' insurance could meet the competition of the direct writer by keeping the expense ratio low. Also, the life insurance industry, more than the fire and casualty industry, has the necessary sales force to sell such a package policy.

Because of this recent development, some Wall Street observers believe that an investment now in fire and casualty companies can only be made on the speculative basis of buying likely merger candidates currently selling below book value. They point out, as an example, that when Connecticut General contemplated absorbing National Fire of Hartford in 1955, National Fire rose almost 50% in a week after the ex- *(Please turn to page 652)*

1961 MID-YEAR DIVIDEND FORECAST

AIRLINES AS SPECULATIONS RATHER THAN INVESTMENTS

By JOHN MARCHESI

- **Companies generally still in the throes of establishing their place in transportation . . . factors upon which success depends**
- **Basis for recent market strength — who is buying the stocks — reconciling the favorable tape action with the rather uncertain earnings outlook**
- **Factors of strength in jet longevity — possible new consideration from the CAB — and trend toward low prices to meet competition from other transport**
- **Speculative and trading characteristics of the airline securities — the group that appears interesting currently from market point of view**

THE optimism which surrounded the entry of the airline industry into the jet age has about vanished, and with good reason. Last year the earning power of the domestic trunks nearly evaporated, notwithstanding establishment of a new peak in revenues. **On gross of about $1.9 billion, the industry was able to bring only $1.2 million down to net!**

This year the story is more of the same. For the first five months of 1961 the domestic trunks racked up a deficit of $19.7 million, compared with a loss of $13.4 million in the like months of 1960. How did the industry manage to accomplish such a sad result in the face of a year-to-year revenue gain?

Several factors do provide some explanation for the dismal showing; the six-day strike in February disrupted traffic not only in that month but in March as well, owing to the effect on forward bookings. Of course, the weather in the forepart of 1961 was unusually bad, as we all remember. **But the real problem for the industry in 1961 has been the lack of growth, which is a new and serious element in the picture.**

Revenue passenger miles through the first five months of 1961 slipped 3.8% below those of the year before. Moreover, to compound the trouble, first-class traffic continued to sag noticeably, while the lower-rated coach volume reached higher levels. No one is exactly sure why traffic turned so sour in the first five months of 1961. To be sure, the general

business slowdown undoubtedly played a role in the poor showing of the airline industry, reflecting the importance of the business traveler. But the trouble may be deeper than this simple explanation. **Some observers feel that the airline industry has drained off just about all the long distance traffic it can get from the railroads and the buses. If so, airline trouble may only be beginning.** In any case, the rise in operating expenses outpaced the modest revenue gain for the first five months of 1961 (which occured because of more longer-haul business and higher coach fares), and a bigger deficit was the end product.

Second-Half Prospects

The question now is how will the industry fare in the second half of 1961? Traffic will definitely pick up if for no other reason than an increase in travel by businessmen. Tourist business, too, should be on the rise, reflecting a decline in unemployment, and larger disposable income. Even so, it is hard to see dramatic year-to-year traffic gains for the industry over the balance of the year.

On this basis and in light of the slow start, a very modest gain is anticipated for 1961 as a whole. Something on the order of a 5% gain in volume seem to be a reasonable expectation.

Operating expenses, meanwhile, will continue to climb at a sharp rate. Jet deliveries will remain quite heavy in 1961, with 157 turbine aircraft (of which 118 will be pure jets) scheduled for delivery to the nation's airfleet. This spells more break-in expenses and higher depreciation. More importantly, it means that the pressure on load factors which has already existed for some time will get worse before it eases. Combine the expected slow growth in business with the steady rise in expenses and you can see why the immediate earnings picture is dismal. For most carriers, little or no earnings improvement is in prospect for 1961.

Basis for Market Strength

Few investors will quarrel seriously with the second-half outlook for the airline industry which has been outlined above. Nevertheless, most of the stocks in the group are well up from their lows. Furthermore, it is interesting to see how many funds picked up air transport shares in the second quarter of 1961. The thoughtful investor is probably wondering how the poor prospects for the industry can be reconciled with the favorable tape action for the group.

● For one thing, the leverage factor in airline operations is impressive. Consider for a moment how little extra expense is associated with the carriage of five or six extra people on a flight. Aside from an inexpensive meal and a drink, the cost of toting these travelers is practically nil. Hence, it is possible to think hopefully in terms of additions to pretax net. Put more specifically in financial terms: **an increase of 1% in last year's load factor (which is the relationship of traffic to available seats) would have yielded the industry about $26 millon more in pretax net.**

● Another factor which may have whetted the appetite of the bulls for airline securities is the large potential earning power considered reasonable by the regulatory authorities. In the case of the Big Four (**American, Eastern, United** and **T.W.A.**), the C.A.B. feels that 10¼% return on invested capital is not out of line, while 11⅛% is the yardstick to be applied to the other domestic trunklines. To illustrate what these companies would show if they hit their allowable levels, a look at the Big Four suggests these per share results: American, $3.00; Eastern, $6.00; United, $6.00 (no allowance for Capital properties) and T.W.A., $3.25. Of course, there is no guarantee that such earnings will be reported by any or all of these systems, but the possibility is at least in the picture for the hopeful speculator.

More Constructive Regulatory Policies

Another possibility which must be considered is that of a change in regulatory attitude. The importance of such a change can hardly be exaggerated, considering the close rein which the C.A.B. has over the group and the direct effect of its policies upon the industry in the postwar period. Until recently, it seems fair to say that the Board had a bias in favor of the traveling public and against the interests of the carriers. The regulatory authorities generally pursued a policy of beefing up the smaller, unprofitable lines by giving them entry into the more lucrative markets. The theory was fine, but unfortunately it didn't work in practice. Instead of easing the financial difficulties of the afflicted line, the result was merely to drain enough traffic away from the healthy carrier to cause trouble for all concerned. **Eastern,** for example, was the victim of this squeeze play on its New York-Florida run, as **National,** and then **Northeast,** were authorized to compete in this area. The result: three sick carriers instead of two.

Some observers claim to detect signs of changing thinking on the part of the C.A.B. In light of the new faces on the Board, such an evolution in regulatory attitude may well be in the making. **For one thing, the United-Capital merger was approved in the face of opposition from other airlines, which feared the competitive threat of America's largest domestic airline. It might be argued, of course, that the C.A.B. had no choice but to approve the United-Capital union since bankruptcy was the only other alternative for Capital.**

Whether or not the Board is interested in eliminating some of the excess capacity in the skylanes by authorizing judicious mergers is still to be determined. The authorities are now trying to find a home for Northeast, but this is another troubled airline. The real test of their intentions will come when two financially healthy lines propose a merger. If the Board is agreeable to this type of consolidation, the excessive duplication of service now provided between major cities would disappear, to the benefit of industry load factors and earnings.

Jets Offer Good Potential

The airline industry's longer term prospects have been materially improved by the advent of the jet. This magnificient piece of equipment not only is setting new standards of reliability, but it promises to be a long-lived workhorse. The current versions of the pure jet may well last ten years or longer, giving the airline industry a breather as far as major financing is concerned.

Some, of course, will suggest that supersonic aircraft will be upon us in five years or less. But this is unrealistic. In the first place, some major problems

Statistical Data on Leading Airlines

	1st 6 Months: Net Sales 1960 (Millions)	Net Sales 1961 (Millions)	Net Profit Margin 1960 %	Net Profit Margin 1961 %	Net Per Shares 1960	Net Per Shares 1961	Full Year: Earned Per Share 1959	Earned Per Share 1960	Cash Earn. Per Share 1960	Indic. 1961 Div. Per Share *	Price Range 1960-61	Recent Price	Div. Yield %
AMERICAN AIRLINES W.C. (mil.) '59–$72.3; '60–$57.6	$205.8	$201.8	1.6%	1.2%	$.40	$.29	$2.51	$1.40	$5.82	$1.00	27⅛-17⅜	26	3.8%
BRANIFF AIRWAYS W.C. (mil.) '59–$7.6; '60–$10.0	19.0[5]	20.7[5]	d2.5	d1.9	d.17[5]	d.14[5]	.85	.24	2.88	.30	14⅜- 8¼	12	2.5
CONTINENTAL AIR LINES W.C. (mil.) '59–$(d)3.2; '60–$6.4	28.7	30.8	1.7	1.7	.28	.19	.93	.93	4.84	—	12⅛- 5½	10	—
DELTA AIR LINES W.C. (mil.) '59–$10.2; '60–$8.7	120.2[1]	146.1[1]	2.3	3.1	2.53[1]	4.15[1]	2.53[1]	4.15[1]	13.00[2]	1.20	60⅝-20	53	2.2
EASTERN AIR LINES W.C. (mil.) '59–$44.0; '60–$29.0	78.6[5]	72.6[5]	d1.5	d5.6	d.38[5]	d1.35[5]	2.24	d1.74	10.15	—	34' -22	28	—
NATIONAL AIRLINES W.C. (mil.) '59–$11.2; '60–$7.7	50.9[4]	48.2[4]	d2.0	d11.2	d.57[4]	d2.91[4]	1.42	d1.63	3.16	—	17½-10	16	—
NORTHWEST AIRLINES W.C. (mil.) '59–$8.1; '60–$17.2	61.7	45.9	d.3	2.7	d.38	.69	3.68	.75	11.14	.80	33¼ 13¾	29	2.7
PAN AMERICAN WORLD AIR. W.C. (mil.) '59–$28.4; '60–$31.5	85.6[5]	87.2[5]	2.4	7.2	d.32[5]	d.96[5]	1.17	1.07	8.64	.80	23½-16⅜	20	4.0
TRANS WORLD AIRLINES W.C. (mil.) '59–$4.9; '60–$36.0	177.1	166.3	—	d.7	—	d1.75[3]	1.41	.97	4.98	—	19 -11⅛	15	'—
UNITED AIR LINES W.C. (mil.) '59–$10.2; '60–$27.8	167.7	255.5	1.0	1.1	.43	1.03	3.50	2.65	14.28	.50	51⅞-25¼	49	1.0
WESTERN AIR LINES W.C. (mil. '59–$11.9; '60–$17.1	34.0	25.7	3.9	d2.1	.94	d.38	4.82	1.70	8.22	1.00	35½-17½	26	3.8

*—Based on latest dividend.
W.C.—Working capital.
d—Deficit.

1—Years ended June 30, 1960 and 1961.
2—1960.
3—Estimated.

4—9 months March 31.
5—1st quarter.

American Airlines: Earnings for 1961 will be disappointing, repeating the experience of recent years. However, a turn for the better appears to be in the making and the low profits point may well have been seen. Despite slim coverage, the $0.25 quarterly dividend may hold. **B4**

Braniff Airways: This marginal airline may well have passed the low point in its earnings cycle, particularly since it is now flying its Electras at full speed again. However, longer-range prospects remain highly uncertain and this company may well go the merger route. **C4**

Continental: One of the smaller airlines, this company has done quite well in the jet age, having one of the lowest break-even points in the industry. Nearby prospects look good. **C1**

Delta Air Lines: With an all turbojet fleet, company did not have to face the restrictions placed on the Electra. Recent earnings have been impressive and the immediate outlook is favorable. **B1**

Eastern Air Lines: Recent announcement pointed to improving operations over the balance of 1961, but a loss for the year as a whole. Longer term, this company should regain its profitable ways again. **B4**

National Airlines: Considering the recent route award to the West Coast, the line has become more attractive merger bait and may well do this in due course. **C4**

Northwest: Aided by vigorous cost cutting, company has shown fairly good earning power recently. However, longer term prospects remain clouded due to the intense competition facing the carrier. **C3**

Pan American World Airways: This carrier along with its foreign competitors is having a rough time in 1961. Some earnings improvement should take place in coming months, but full-year net will be down. **B4**

Trans World Airlines: Company has recently had a management change which has constructive implications. However, it may be some time before TWA exploits its many natural assets. **C4**

United Airlines: Now the largest domestic carrier, this line is also the best. An earnings contribution should begin to be seen from the Capital properties beginning in 1962. **A1**

Western Airlines: This company is an efficient carrier which has enjoyed a good record of growth in the past. Although the competition from other lines is tough, this well-run carrier should hold its own. **B2**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

will have to be solved before even a prototype aircraft of this type is flying. Operation of supersonic planes near cities will break thousands of windows; flying at new high altitudes will mean greater importance of pressurization systems, which must not fail; general problems of creating an aircraft safe enough for the traveling public loom large. All in all, there is a good deal of preliminary work to be done before a supersonic plane even comes off the drawing boards. Even if the designers can solve the problems of the supersonic age in rapid fashion, relatively few places on the domestic landscape offer economic scope for the use of these planes. Aside from the transcontinental market, most domestic routes offer little real need for such rapid craft. The real market for supersonic planes will exist among the international trunklines. And even here two dozen planes will probably be sufficient to fill the bill for quite some time.

Prospects for 1962

So much for the plus factors in the domestic air transport picture.

The question is how *(Please turn to page 649)*

FOR PROFIT AND INCOME

Revlon

Readers who bought Revlon on our earlier advices here have fat profits. Around 74, although off from a high of 79⅛, the stock has nearly doubled from its 1961 low (adjusted for a 2-for-1 split) and more than tripled from its 1960 low. It looks high on earnings, which may be in the vicinity of $2.30 a share this year, against $2.16 in 1960. But we continue to think, as stated before, that profit taking could be ill-advised. There appear to be important potentials — perhaps sensational — in the company's new cream for treatment of skin wrinkles. Trademarked "Eterna 27", it has been cleared by the Federal Food and Drug Administration and will go on the market in no great time. Profit margins should be even better than those on Mead Johnson's "Metrecal", the leading diet control product, since the patented Revlon skin cream will be free of competition for at least some time to come. "Metrecal" has been mainly responsible for lifting Mead Johnson's earnings from $3.02 a share in 1959 to over $7.00 estimated for this year. Nobody can say whether the gain for Revlon from its new product will be less than that or more. Stay with the stock.

Inside The Market

Short-term patterns of selectivity in the market are often largely shaped by transient changes in technical positions, while favorable or unfavorable trends of some duration hinge on more basic considerations. At this writing, the principal stock groups performing better than average are aircrafts, airlines, aluminum, auto parts, finance companies, metal fabricating, office equipment, shipbuilding, sulphur, and textiles. Groups currently lagging include building materials, chemicals, drugs, electrical equipment, television-electronics, meat packing, machinery, oils, steels and sugar. Groups lagging on the year to date include airlines, aluminum, building materials, electrical equipment, steel and textiles. Groups with some of the largest 1961 net gains include banks, insurance stocks, tobaccos, finance companies, and tires.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1961	1960
Gardner-Denver	Quar. June 30	$ .83	$ .75
Union Electric	Quar. June 30	.54	.48
Beech-Nut Life Savers	Quar. June 30	.73	.66
McIntyre Porcupine Mines	6 mos. June 30	.52	.41
Continental Steel	Quar. June 30	1.36	1.41
Champlin Oil & Refining	6 mos. June 30	1.25	.78
Pillsbury Co.	Year May 31	3.64	3.04
Dr. Pepper Co.	6 mos. June 30	.44	.41
MacAndrews & Forbes	Quar. June 30	.75	.48
Twin City Rapid Transit	6 mos. June 30	.67	.34

Dividends

First-half dividends on common stocks listed on the Big Board showed a year-to-year gain for the nineteenth consecutive year. However, it was only 2%. In terms of changes by individual companies, the news remains decidedly unexciting. In July there were extras voted in 25 cases, against 39 a year ago; increases in regular rates by 41 companies, compared with 43 a year earlier. Despite the business recovery, 19 companies cut or omitted dividends in July, compared with 18 in the same month of 1960. Probably there will be more extras or increases in November-December — the season of heaviest payments — than were seen a year earlier, but we see nothing dynamic in the dividend outlook. For that matter, who cares? In this market, capital gain is the dominant objective, current income return seemingly incidental or unimportant. Average dividend yield on common stocks is under 3%, compared with nearly 4.5% on high-grade corporate bonds, over 4% on long-term Government bonds and nearly 3.9% on short-term Government bonds. Few investors want bonds, so the bond market recently eased to a new low for the year.

Candidates

While it may be of interest mainly to present shareholders, some candidates for increased dividends between now and mid-1962 include American Electric Power, American Tobacco, Atlantic City Electric, Bank of America, Beech-Nut Life Savers, Campbell Soup, Central & South West, Eastman Kodak, Family Finance, Ford Motor, Continental Insurance, Gillette, Illinois Power, Metro-Goldwyn-Mayer, Northern States Power, Safeway Stores Scott Paper, Singer Manufacturing, Talcott and Tennesse Corp.

Stock Splits

Among Big-Board stocks there were only 8 splits of 2-for-1 or better in the first quarter of this year, but the number rose to 25 in the second quarter as the market advanced and confidence in the outlook increased. The first-half total of 33 compared with 43 in the like period of last year and with 51 in the 1959 first half. If the market does no more than hold around present levels, the chances are that second-half splits will exceed the reduced year-ago total. If there is a moderate further rise in stock prices, the number of splits will be increased considerably. Splits add to popular allure in stocks — and make it easier for insiders to sell.

Possibilities

Here are some possibilities for splits in the next 12 months or so: American Chicle, Bank of New York, Brown Shoe, C.I.T. Financial, Cambell Soup, Ford Motor, Gillette, Heller (Walter E.), Hershey Chocolate, Illinois Power, Mead Johnson, Revlon and Texas Utilities.

Bankers' Choice

Due to legal requirements and conservative leanings, common stock holdings of savings banks — in states where equity investment is permitted — are relatively small. In New York State, holdings of 84 mutual savings banks are handled by Institutional Investors Mutual Fund, Inc., set up by the banks for this purpose. As of March 31, the fund held only $63.4 million in common stocks. The issues most largely held in dollar value vary considerably from the popularity ratings indicated by holdings of other investment companies. Thus, there is only one petroleum stock among the top 10 and that is Continental Oil — in seventh place. There are two utilities in the top ten. They are American Electric Power, ranking eighth in value of holdings; and Peoples Gas Light Coke, ranking tenth. The No. 1 stock in this list is a rather unusual choice; namely, General American Transportation. It is a good stock, held by a number of funds, but far from tops in general popularity with investment funds. Others among the first five are, in order, General Foods, Beneficial Finance, Eastman Kodak and Jewel Tea.

Other Funds

In the second quarter, a period of moderate net change in average stock prices, investment companies in the aggregate added about $161 million to stock holdings, up from $143 million in the first period. There was more activity in switching than in employment of new money. The latter, after redemptions of mutual fund shares, is not rolling in to the extent that was so earlier. Most favored groups on the buy side included airlines, automobiles, banks, metals, oils, publishing, rails and steels. None of these groups has "gone to town" since the end of the second quarter. Some have lagged. Natural gas stocks were sold on balance, especially pipe line issues. Favored issues included Ford, DuPont and Gulf Oil. Some of the issues sold fairly heavily on balance were Columbia Broadcasting System, Corn Products, General Public Utilities and Radio Corp. Issues sold on balance in electrical equipment-electronics groups included Ampex, Beckman Instruments, Texas Instruments, Collins Radio, Daystrom, Square D and Westinghouse Electric. No doubt the choices will be somewhat different, maybe widely so, when reports of fund operations in the third quarter are released. Differences of opinion — and changes of mind — make the market. At almost any time, some funds are buying some stocks that other funds are selling.

Strong Stocks

Stocks reflecting above average demand at the time of this writing include Armstrong Cork, Burlington Industries, Associates Investment, Caterpillar Tractor,

(Please turn to page 654)

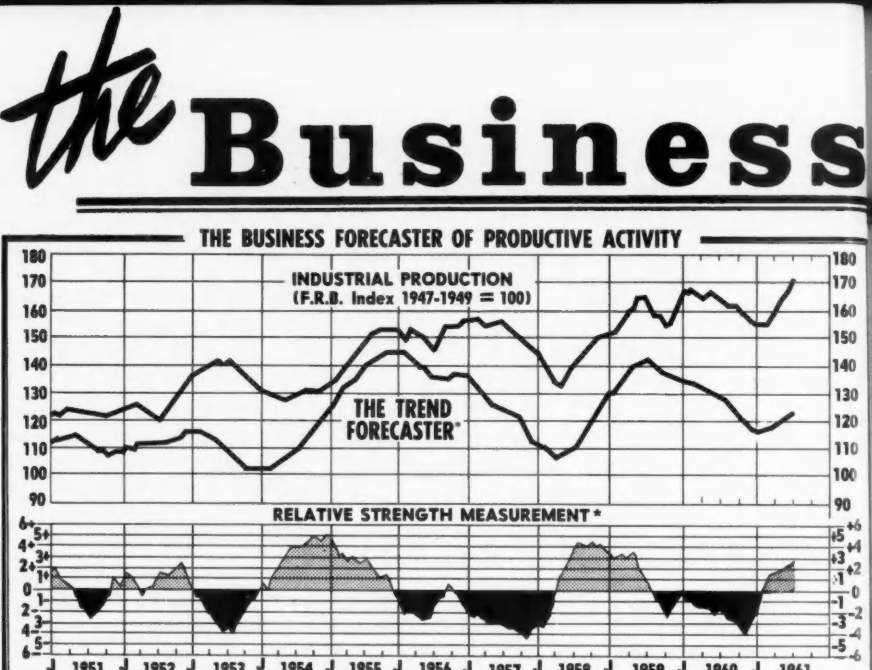
DECREASES SHOW IN RECENT EARNINGS REPORTS

		1961	1960
Rheem Mfg.	Quar. June 30	$ .05	$ .13
Mc Kesson & Robbins	Quar. June 30	.45	.50
Simmons Co.	Quar. June 30	.72	.91
Crown Zellerbach	Quar. June 30	.69	.78
Granite City Steel	Quar. June 30	.61	.77
Magma Copper Co.	Quar. June 30	1.96	2.28
National Sugar	6 mos. June 30	.10	.47
United States Tobacco	6 mos. June	.73	.85
Bliss & Laughlin	6 mos. June 30	.69	1.66
Libbey-Owens-Ford	Quar. June 30	.93	1.12

the Business

Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.

(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

All the indicators making up the Trend Forecaster were advancing in the latest month for which data are available, although gains in most instances were moderate. The most consistent strength in the current recovery has been exhibited by new orders for durable goods and average hours worked. The former has been rising for eight consecutive months, while the latter has an unbroken string of seven advances. Other indicators which have done almost as well include stock prices, which spurted ahead from November 1960 through May of this year and have again turned strong thus far in August; housing starts, which have made a good recovery from their December 1960 low, and liabilities of business failures (inverted), which are now at their best level since July of last year. New incorporations and raw industrial prices have recovered moderately while nonresidential construction contract awards are only slightly above recent lows.

On the basis of the latest estimates, the Relative Strength Measure stood at 2.9 in July, and was indicating that further business improvement could be expected for the balance of this year.

Analyst

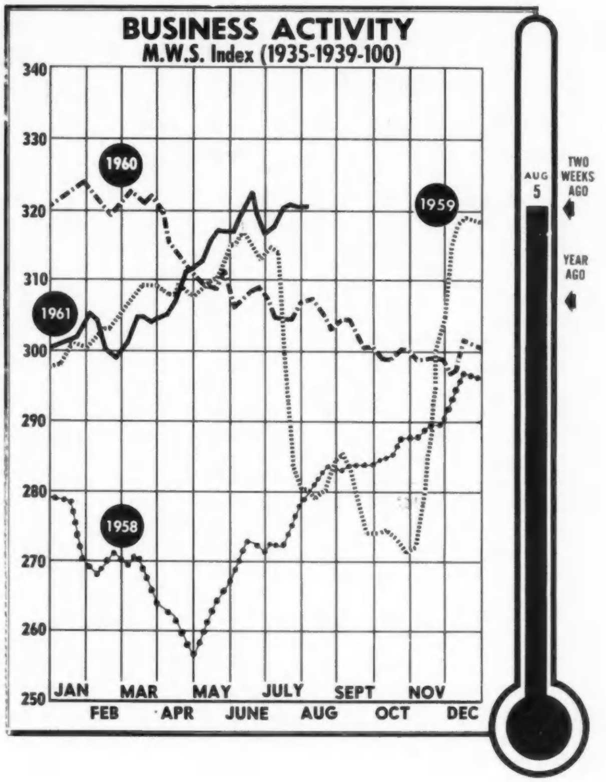
CONCLUSIONS IN BRIEF

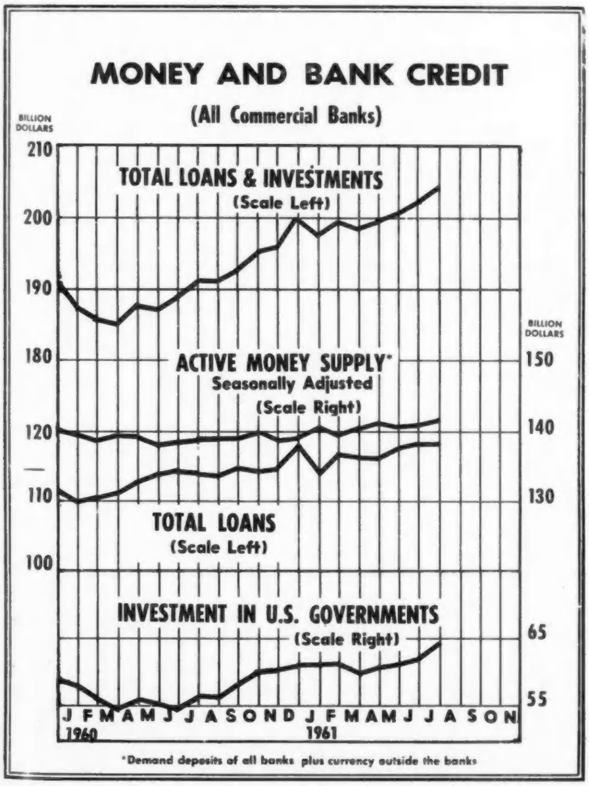
PRODUCTION — Federal Reserve Board's seasonally adjusted production index at new high in July, despite reductions in actual output of steel and autos. Steel activity is now picking up and healthy improvement in most lines of industrial production expected after Labor Day.

TRADE — Retail sales backtracked a bit in July, with extremely hot weather getting part of the blame. Informed opinion still expecting worthwhile improvement in consumer demand in the months ahead, in line with rise in personal income.

MONEY & CREDIT — Bond prices continue to recede as impact of rising Federal deficit spending and further business recovery induce investors to lighten holdings. With these factors expected to be operative for some time to come, outlook for bonds is not bullish.

COMMODITIES — industrial raw materials as a group have been creeping up in price, although some gains have been impressive. Deficit financing and expected upturn in loans should make for an expanding money supply and this should bolster prices in general.





If business trends in recent weeks have seemed erratic and difficult to assess, blame it on such factors as summer vacations and, in the case of the auto industry, on the usual slowdown attendant upon introduction of new models. Although output in some industries has declined rather sharply, the Federal Reserve Board assures us that this is merely a seasonal phenomenon and that its industrial production index, after appropriate adjustment for normal summer slackness, rose to a new high of 171 last month, up from 168 in June and above the previous peak of 168 reached in January, 1960. The advance in output in July was a broad one, with gains posted for a wide variety of consumer goods, business equipment and industrial raw materials. Actual production of autos and steel was lower but the Federal Reserve, after adjusting for seasonal variation, also ranks these industries in the plus column.

Although there is a possibility that the Board's adjustment techniques may have exaggerated the July advance in production to some extent, recent reports from other sectors of the economy provide further confirmation of the underlying strength of business. Thus the average workweek rose again in July, non-farm employment reached a new all-time high and construction outlays also were at a new peak. New orders for machinery and machine tools have moved higher in recent months and this could mean that capital spending is going to rise more rapidly than had been indicated by the latest Govern-

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	July	171	168	166
Durable Goods Mfr.	1947-'9-100	July	176	171	172
Nondurable Goods Mfr.	1947-'9-100	July	167	165	163
Mining	1947-'9-100	July	130	129	128
RETAIL SALES*	$ Billions	July	18.1	18.3	18.1
Durable Goods	$ Billions	July	5.5	5.6	5.7
Nondurable Goods	$ Billions	July	12.6	12.7	12.5
Dep't Store Sales	1947-'9-100	July	151	149	148
MANUFACTURERS'					
New Orders—Total*	$ Billions	June	31.0	31.1	30.1
Durable Goods	$ Billions	June	14.9	14.8	14.3
Nondurable Goods	$ Billions	June	16.2	16.3	15.8
Shipments*	$ Billions	June	31.0	30.8	30.8
Durable Goods	$ Billions	June	14.7	14.6	14.9
Nondurable Goods	$ Billions	June	16.2	16.2	15.9
BUSINESS INVENTORIES, END. MO.*	$ Billions	June	91.4	91.3	93.5
Manufacturers'	$ Billions	June	53.4	53.4	55.1
Wholesalers'	$ Billions	June	13.5	13.5	13.0
Retailers'	$ Billions	June	24.6	24.5	25.3
Dept. Store Stocks	1947-'9-100	June	164	164	164
CONSTRUCTION TOTAL—†	$ Billions	July	58.7	57.8	55.4
Private	$ Billions	July	41.2	40.7	39.0
Residential	$ Billions	July	23.1	22.6	22.3
All Other	$ Billions	July	18.1	18.1	16.7
Housing Starts*—a	Thousands	June	1374	1295	1279
Contract Awards, Residential—b	$ Millions	June	1558	1554	1483
All Other—b	$ Millions	June	2044	1948	1989
EMPLOYMENT					
Total Civilian	Millions	July	69.5	68.7	68.7
Non-farm*	Millions	July	53.4	53.2	53.1
Government*	Millions	July	8.8	8.8	8.4
Trade*	Millions	July	11.7	11.6	11.7
Factory*	Millions	July	12.0	11.9	12.4
Hours Worked*	Hours	July	40.1	40.0	39.9
Hourly Earnings	Dollars	July	2.35	2.35	2.29
Weekly Earnings	Dollars	July	94.00	94.24	91.14
PERSONAL INCOME*	$ Billions	June	417	413	406
Wages & Salaries	$ Billions	June	280	277	274
Proprietors' Incomes	$ Billions	June	61	61	61
Interest & Dividends	$ Billions	June	41	41	41
Transfer Payments	$ Billions	June	33	33	29
Farm Income	$ Billions	June	17	17	17
CONSUMER PRICES	1947-'9-100	June	127.6	127.4	126.5
Food	1947-'9-100	June	120.9	120.7	120.3
Clothing	1947-'9-100	June	109.6	109.6	108.9
Housing	1947-'9-100	June	132.4	132.2	131.3
MONEY & CREDIT					
Action Money Supply*—u	$ Billions	July	141.6	141.0	138.6
Bank Debits*—g	$ Billions	June	101.8	103.0	98.0
Business Loans Outstanding—c, u	$ Billions	June	31.8	31.5	31.9
Instalment Credit Extended*—u	$ Billions	June	4.2	4.0	4.3
Instalment Credit Repaid*—u	$ Billions	June	4.0	4.0	3.9
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	June	10.7	6.5	10.9
Budget Expenditures	$ Billions	June	7.9	7.2	6.5
Defense Expenditures	$ Billions	June	4.6	4.0	4.0
Surplus (Def) cum from 7/1	$ Billions	June	(3.9)	(6.7)	(1.2)

PRESENT POSITION AND OUTLOOK

ment survey of investment plans.

Further business gains appear to have taken place in the early weeks of August, with steel output beginning to turn upward, even without the benefit of seasonal adjustments, and the barometric figures on paperboard orders expanding sharply. In addition to the normal forces favoring further economic recovery this Fall, we have the assurance of sharply increased defense spending and Federal programs entailing bigger outlays for housing, distressed areas, public works, and space exploration.

All these factors appear to point to a strong recovery ahead, but some people claim they can see several flies in the ointment. Of most immediate concern has been the wobbly nature of consumer demand, with retail sales retreating in July to $18.1 billion, from $18.3 billion the month before. Retail trade has had a relatively feeble recovery thus far, standing only $300 million above the bottom reached five months earlier.

With consumer demand for goods absorbing almost 40% of our total output, the prospects for such spending cannot be ignored in any assessment of the business outlook. It may be rather early, however, to expect any broad gains in consumer buying, which has tended to lag rather markedly in some of the earlier recoveries. The July figures, moreover, may be far from typical, as many retailers have reported that the abnormal hot weather of recent weeks kept many prospective customers from their doors. This is not to say that reasons for consumer caution are hard to find. There is some anxiety about continuing high unemployment and workers fear the impact of further mechanization and automation. Also, much uncertainty has been generated by mounting international tension.

At the same time, grounds for improvement in the consumer's state of mind are also visible. Unemployment should begin to decline as business advances and intensification of the cold war can fan the fears of inflation. With personal income at an all-time high and instalment debts reduced from earlier levels, the odds favor a snap-back in consumer spending

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1961 Quarter II	1961 Quarter I	1960 Quarter IV	1960 Quarter II
GROSS NATIONAL PRODUCT	515.0	500.8	504.5	506.4
Personal Consumption	336.0	320.7	332.3	329.9
Private Domestic Invest.	336.0	59.8	65.6	74.6
Net Exports	3.5	5.3	5.1	2.3
Government Purchases	107.5	105.0	101.6	99.6
Federal	56.5	54.7	53.0	52.9
State & Local	51.0	50.3	48.6	46.8
PERSONAL INCOME	413.2	404.7	405.5	403.0
Tax & Nontax Payments	51.5	50.4	50.6	50.3
Disposable Income	361.7	354.3	354.9	352.7
Consumption Expenditures	336.0	330.7	332.3	329.9
Personal Saving—d	25.7	23.7	22.7	22.8
CORPORATE PRE-TAX PROFITS		39.6	42.6	46.3
Corporate Taxes		19.6	21.1	23.0
Corporate Net Profit		20.0	21.4	23.3
Dividend Payments	14.2	14.2	14.3	14.0
Retained Earnings		5.8	7.2	9.3
PLANT & EQUIPMENT OUTLAYS	34.6	33.9	35.5	36.3

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Aug. 5	320.8	320.8	307.4
MWS Index—Per capita*	1935-'9-100	Aug. 5	227.6	227.6	222.0
Steel Production Index*	1957-'9-100	Aug. 5	99.3	97.6	82.5
Auto and Truck Production	Thousands	Aug. 12	29	45	97
Paperboard Production	Thousand Tons	Aug. 5	328	317	320
Paperboard New Orders	Thousand Tons	Aug. 5	371	311	341
Electric Power Output*	1947-'49-100	Aug. 5	293	295	276
Freight Carloadings	Thousand Cars	Aug. 5	589	591	594
Engineerings Constr. Awards	$ Millions	Aug. 10	557	458	436
Department Store Sales	1947-'9-100	Aug. 5	132	125	128
Demand Deposits—c	$ Billions	Aug. 2	62.4	63.4	N.A.
Business Failures—s	Number	Aug. 3	406	319	269

PRESENT POSITION AND OUTLOOK

before the year is much older.

Another problem that is disturbing some leading analysts is the strong probability that heavy Federal spending will coincide with a period of high business activity. In the words of Dr. Arthur F. Burns, former Chairman of the Council of Economic Advisers:

"... It appears ... that the bulk of the new spending commitments by the Federal Government will come to fruition ... when recovery is well advanced ..."

"... One of the normal features of the business cycle is that the general price level tends to rise during expansions.... With the private economy recovering, with Federal spending already rising swiftly ... ," Dr. Burns is concerned about the likehood of an upward spurt in the price level. In view of the uncertain state of our international balance of payments, another round of inflation would further undermine the dollar and might seriously threaten the present bases of world trade. Although a sharp rise in prices is not in immediate prospect, the trend toward deficit spending as a solution of all our economic problems may in time become the most serious problem of all.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Seasonally adjusted, annual rate. (u)—End of month data. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960-61 High	1960-61 Low	1961 Aug. 4	1961 Aug. 11
Composite Average	550.0	410.9	541.3	543.7
4 Agricultural Implements	497.2	346.4	423.9	435.5
3 Air Cond. ('53 Cl.—100)	176.9	105.8	165.8	159.6
10 Aircraft & Missiles	1393.5	861.9	1372.0	1393.5H
7 Airlines ('27 Cl.—100)	1163.6	736.7	1065.9	1082.2
4 Aluminum ('53 Cl.—100)	521.3	354.5	421.5	425.5
5 Amusements	427.0	209.3	371.3	371.3
5 Automobile Accessories	531.1	401.0	499.9	495.8
5 Automobiles	157.0	90.8	110.8	111.7
3 Baking ('26 Cl.—100)	44.6	34.9	38.6	38.2
4 Business Machines	2008.2	1159.1	1799.5	1812.6
6 Chemicals	887.1	657.3	872.2	864.8
3 Coal Mining	39.3	27.2	39.0	39.3H
4 Communications	257.6	199.9	253.2	251.0
9 Construction	231.8	143.3	225.0	228.4
5 Container	1074.3	824.6	1057.0	1074.3
5 Copper Mining	399.3	275.4	377.3	374.5
2 Dairy Products	232.4	146.8	228.4	222.3
5 Department Stores	197.8	135.2	196.3	197.8H
5 Drugs-Eth. ('53 Cl.—100)	474.7	360.4	438.1	446.0
5 Elect. Eqp. ('53 Cl.—100)	402.5	310.7	395.6	402.5H
3 Finance Companies	1043.5	648.8	1043.5	1035.5
5 Food Brands	797.4	419.3	769.5	797.4H
3 Food Stores	326.0	232.1	323.5	320.9

(Nov. 14, 1936 Cl.—100)	High	Low	Aug. 4	Aug. 11
High Priced Stocks	340.3	262.7	339.8	340.3H
Low Priced Stocks	729.8	527.6	696.9	697.8
5 Gold Mining	1226.0	810.8	1061.8	1105.5
4 Investment Trusts	173.5	136.5	166.5	173.5H
3 Liquor ('27 Cl.—100)	1548.9	1098.2	1443.3	1466.8
7 Machinery	647.3	402.9	598.6	598.6
3 Mail Order	494.2	364.2	441.6	457.8
4 Meat Packing	311.3	223.9	311.3	308.7
4 Mtl. Fabr. ('53 Cl.—100)	208.6	132.4	190.9	192.3
9 Metals, Miscellaneous	456.6	313.3	456.6	453.2
4 Paper	1237.1	867.3	1001.7	1090.1
16 Petroleum	828.6	609.0	785.7	778.6
16 Public Utilities	472.4	341.6	472.4	472.4
6 Railroad Equipment	111.7	75.8	109.3	111.7H
17 Railroads	70.1	49.9	57.1	56.1
3 Soft Drinks	1096.6	690.3	1040.4	1068.5
11 Steel & Iron	464.9	325.4	407.3	400.5
4 Sugar	100.9	63.0	84.9	83.6
2 Sulphur	874.7	563.1	839.4	860.6
11 TV & Electron. ('27—100)	130.4	86.8	120.8	124.6
5 Textiles	260.4	183.3	256.5	260.4H
3 Tires & Rubber	255.9	170.6	240.7	248.0
5 Tobacco	307.5	182.5	307.5	305.2
3 Variety Stores	398.9	349.3	384.8	377.7
16 Unclassifd (49 Cl. — 100)	337.7	224.0	316.6	309.5

H—New High for 1961-1962.

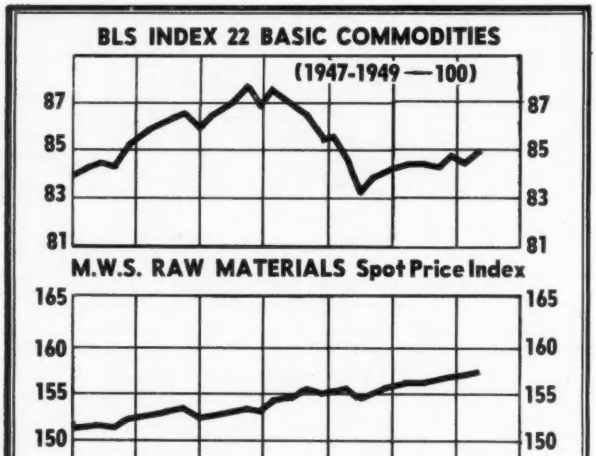
Trend of Commodities

SPOT MARKETS—Sensitive raw materials were higher on balance in the two weeks ending August 11, although gains were moderate. The BLS price index of such commodities rose 0.5% during the period, with metals showing the most strength. Advances were scored by copper scrap, steel scrap, tin, cotton, print cloth, wool tops and rubber, while only burlap declined. The food section of the index was somewhat lower and this held the gain for the over-all index to 0.1%.

Among the broad range of commodities, prices of farm products and foods were moderately higher, supplying most of the impetus for an advance of 0.3% in the comprehensive wholesale price index in the two weeks ending August 8. A general uptrend in prices may well develop in the months ahead, as business recovery continues and deficit spending expands.

FUTURES MARKETS—Futures prices were thoroughly mixed in the two weeks ending August 11. Higher prices were reached by wheat, rye, cotton, wool and hides, while corn, oats, soybeans, lard, coffee and cocoa declined. The Dow-Jones Commodity Futures Index lost 0.4 points to close at 147.8.

Wheat futures were better in the period under review and the December option advanced 2½ cents to close at 205½. The Agriculture Department has estimated that the total wheat crop would be 146 million bushels less than a year ago. With consumption expected to be slightly under last season, the prospective carryover on July 1, 1962 is 1,334 million bushels. A good deal of the carryover will be in the hands of the Government, of course, and the question now is whether current prices, which are approximately equivalent to present loan levels, will induce selling by farmers.



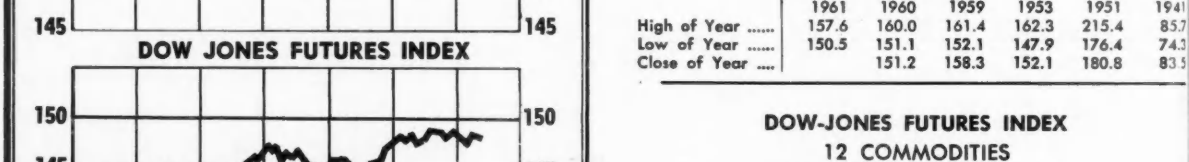
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Aug. 8	118.9	118.6	119.2	60.2
Farm Products	Aug. 8	87.3	86.7	86.6	51.0
Non-Farm Products	Aug. 8	127.6	127.5	128.2	67.0
22 Sensitive Commodities	Aug. 11	85.0	84.9	85.4	53.0
9 Foods	Aug. 11	75.8	76.1	77.9	46.5
13 Raw Ind'l. Materials	Aug. 11	91.9	91.4	91.0	53.3
5 Metals	Aug. 11	96.5	95.1	95.3	54.6
4 Textiles	Aug. 11	82.9	83.0	79.0	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1961	1960	1959	1953	1951	1941
High of Year	157.6	160.0	161.4	162.3	215.4	85.7
Low of Year	150.5	151.1	152.1	147.9	176.4	74.3
Close of Year		151.2	158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1961	1960	1959	1953	1951	1941
High of Year	148.2	148.7	152.7	166.8	215.4	84.6
Low of Year	141.2	141.2	144.2	153.8	174.8	55.5
Close of Year		141.2	147.8	166.5	189.4	84.1



The Need To Modernize Our Outmoded Antitrust Laws

(Continued from page 614)

Fruit, through no deliberate action of their own, have also become practical monopolies. The recent difficulties of the latter company illustrate clearly that this status provides no protection against business vicissitudes.

Smaller business have tended to complain about the severe competition which certain of the larger more efficient corporations have provided. That such competition does harm to the public at large may be questioned, since it generally means lower prices. Small business has a better political image than big business, however, so its complaints against too much competitton are usually given greater weight in Washington than anything which the big corporations may state in their own behalf.

Political Motives Dominate Antitrust Policy

Unfortunately, political considerations play a large part in the activities of the Antitrust Division. This comes about in several ways. **Some evidence indicates that certain of the complaints on which the Department has taken action have been brought in the first instance by labor union interests. In many instances union leaders are out to "get" management, to take the heat off public condemnation of their own monopolistic practices and racketeering.** The recently threatened antitrust action against A. T. & T. may have been in some measure a political neutralizer offsetting possible criticisms against granting satellite privileges to the utility.

The very fact that labor unions and agricultural organizations themselves continue to be exempt from antitrust charges, suggests the degree of unfairness and the importance of political considerations inherent in trust-busting activities of the Government. Actually, labor unions constitute by far a greater threat of monopoly and restraint of trade than business combinations could possibly represent under today's conditions.

Furthermore, Government control itself represents a far greater degree of concentration of economic power than any group of private monopolies could remotely establish. In a society where price fixing by governmental agencies is legally sanctioned while price fixing by private groups is severely condemned, it is difficult to understand why the first practice is sound and praiseworthy while the latter is criminal and vicious.

At any rate, our economy is a mixed one in which labor unions have monopolistic powers to enforce specified wage rates under closed shop conditions and agricultural groups may legally fix prices for corn, wheat, hogs and other agricultural products. Simultaneously, business leaders are subject to jail sentences if they should attempt to imitate the same practice.

A Reappraisal Needed

So wide a gulf exists between the antitrust laws as they were written in 1890 and the working of American business in 1961 that a re-writing of the laws is in order. In many respects our antitrust laws are as outmoded as the theories of Karl Marx. Until a reappraisal can be made it would serve the interests of both the nation's economic well-being and the basic principles of fairness if the Justice Department would apply more light and less heat to its antitrust activities. Less emphasis on punitive expeditions against business and business leaders, less invective, and greater stress on clarification of the law and uniform fair treatment of all elements of our society might produce more meager political grist but should be more effective in retarding the growth of monopoly. Reduced reliance on such nebulous grounds as "possible tendencies toward monopoly" and the limitation of new antitrust cases to instances where the public is actually being injured by monopolistic practices would better serve the true interests and intent of our antitrust laws. The Government must re-examine the spirit of these laws —in the light both of modern industrialization and the present world crisis. END

Aircraft Companies

(Continued from page 633)

the missile frame. ***But the various products will serve to keep military output high.*** **Northrop's** supersonic USAF T-38 jet trainer is in volume production but the Hawthorne plant -has been unable to find foreign buyers for the fighter version, the N-156F. Various drones built by Northrop's Radioplane Division are also being procured in quantity. **Marquardt,** virtually the only company in the ramjet engine field, suffered when the long-range version of the Boeing Bomarc interceptor missile was cut back. But NASA and Atomic Energy Commission interest in Project Pluto, the nuclear ramjet engine for use in space, may well mean ultimate gains for Marquardt.

McDonnell is the producer of the Mercury space capsule for NASA as well as the Mach 2 F-101 interceptor for the Air Force and the F4H Navy carrier fighter. Navy is still buying the F4R but USAF orders for the F-101 stopped with the fiscal 1961 buy. Continuing USAF purchases of the B-52-launched Quail decoy missile and well as subcontracts from Bendix for the engines and airframe of the Navy ***Talos interceptor missile will keep McDonnell's earnings high.***

Other Aircraft Participants

Predictions are that the use of business aircraft will continue to grow throughout the 1960's and 1970's, with resultant benefits for the three leading builders of general aviaton airplanes, **Beech, Cessna** and **Piper.** This market may be shared, however, as other firms **(Aero Commander, Lockheed, North American, Fairchild** and **Grumman)** offer turbine-powered business airliners.

Curtiss-Wright, once a leading jet engine supplier, has had to invest heavily in research to catch up with various competitors. ***Most of C-W's efforts are now in the booming electronics field (military and civil) but the lag may be difficult to overcome.***

Rohr and **Ryan,** both in the jet engine power package field, should maintain sales levels as output of B-52's, 707's DC-8's, 880's, KC-135's and other pod-mounted

(Please turn to page 649)

Answers to Inquiries...

The Personal Service Department of THE MAGAZINE OF WALL STREET, 120 Wall St., New York City 5, N.Y., *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

American Investment Co.

"I have been a subscriber to your valued magazine for a good many years. I would appreciate receiving data on American Investment Co., outlining the company's record, recent earnings and also please elaborate on the company's new electronic equipment which is expected to reduce credit losses and cut costs."

E. P., Racine, Wisconsin

From a humble founding in 1916 with initial capital of $2500, American Investment Co. has grown to become one of the largest small loan companies in the United States, with corporate assets of over $278 million.

Through subsidiaries, it operates 700 loan offices in 43 states. Last year, these operating subsidiaries made more than one million loans, averaging $406 each and totalling more than $413 million.

Subsidiaries make direct cash installment loans and, where state laws permit, purchase dealer paper accounts and offer credit life and accident and health insurance.

Loan volume increased 9.1% last year but the net gain in earnings before taxes was 3%. Net income per common share amounted to $1.37 in 1960, up from $1.25 a share in the previous year. In the first quarter of 1961 net per share was 30 cents compared with 36 cents in the like period of 1960.

American Investment Co. has developed a new system for evaluating personal loan risks that promises to sharply reduce bad debt losses and increase net income.

Scientific principles are employed with a modern electronic computer. The new credit-scoring system minimizes the guesswork in evaluating credit risks and is now in effective use in all 700 of the company's offices. Bad debt losses of the company in 1960 totalled nearly $7 million, just 2.39% of average receivables, a smaller percentage than in the previous two years.

The new mathematical formula identifies and scientifically weighs personal characteristics affecting the probabilities of repayment of a loan as agreed. The method has been tested and checked and results have been encouraging. Credit scoring has been made part of the company's operation policy. Office personnel taking credit applications can score each one in 30 seconds. A top executive of the company estimated that credit scoring will eliminate some 25% to 30% of the seriously delinquent accounts. Each of these accounts costs an additional $85 to $100 to handle over the normal cost of handling a good account. The new credit scoring system, according to the executive, "should affect an annual saving of approximately $1 million before taxes."

"The most direct benefit of credit-scoring to the net earnings of the company will come through an eventual reduction of the uncollectable accounts which are charged as losses against income. Savings from reduced charge-offs could run as high as $2 million a year once the system becomes effective," according to the company's executive.

With high labor and operating costs, and keen competition squeezing corporate profit margins, corporations are using ingenuity to cut costs and this method by American Investment Co. is an example.

Stock Warrants

"I have seen advertisements that state that stock warrants offer phenomenal profits. Please explain what they are and how they work."

B. F., Warren, Ohio

For those seeking the largest profits on the smallest investment, stock warrants have an appeal. Profits can multiply faster than on a stock. This fast multiplier is the rabbit of the investment field.

An exceptional and classical illustration was the following: A $1000 investment in RKO warrants in 1942 increased in value to over $100,000 in 1946. But warrants also contain great risks and the entire investment can be lost.

A warrant is a certificate, usually sold to early shareholders of a corporation or given in the

(Please turn to page 656)

aircraft continues. Both produce aircraft and missile components and Ryan has the added impetus of Navy/Air Force purchases of the Firebee drone.

Avco is a large producer of ballistic missile nose cones and its Lycoming Division is now turning out several types of piston and turboshaft engines for civil and military use. Electronics research has also started paying off. ● Biggest "new" company in the field is **Ling-Temco-Vought,** the result of a recent merger of Chance Vought (a leading builder of Navy aircraft) and Ling-Temco Electronics. The combined firm holds a substantial military backlog for F8U-2 Crusader carrier fighters and various pieces of electronic equipment, and Pentagon procurement officials expect to keep up various procurements from the Dallas company.

An Important Question Mark

Any industry closely tied to the the ups and downs of the international political situation must expect to experience its own peaks and valleys, and the aerospace industry is the leading example. But the U.S. has never completely returned to the originating point in any letdown after a build-up (e.g., military forces after the Korean War stayed higher than they were before the conflict).

Continuing U. S. - Soviet tensions should be accompanied by a high level of sales by companies in the aerospace business. And the push for space equality, initiated by Sputnik I and culminating in Major Titov's flight, should also mean more business. The question mark remains only as to how much the companies participating can keep in the way of profits. END

Airlines As Speculations Rather Than Investments

(Continued from page 639)

soon will some of these potential strengths be translated into larger earnings.

While it is never wise to be too definite about so mercurial an industry as this one, it would appear that 1961 will be the beginning of an improving cycle for this group.

Some traffic growth may be as-

sumed for next year, perhaps on the order of 10%. Such a gain would be below the average experience of the 1950-59 decade, when a growth rate of 15% was seen. However, a more modest expectation now seems realistic in light of the maturing nature of the air transport industry.

Jet deliveries will begin to slide off rather sharply next year, which means there will be less pressure on load factors. A modest year-to-year improvement in load factors may well occur in 1962. If so, this by itself could produce an impressive year-to-year profits gain for the group, particularly since comparisons will be against a low level in 1961. But whether 1962 profits in themselves will be impressive is quite another matter.

Can They Raid the Auto Market?

Looking down the road a bit, the most significant problem facing the airline industry is that of stimulating traffic growth. As pointed out earlier, it is believed that virtually all of the long-haul surface traffic susceptible to inroads has been captured by the airlines. The problem now is clear-cut: how do you get people out of their cars and into the air?

The automobile is a very formidable competitor for the airline, particularly from the angle of cost to the consumer. For instance, the expense of moving a family of four from New York to Florida is infinitely less in a car than it is by plane. Quite obviously, if the airline industry is going to be successful in luring the traveler out of his automobile, it is going to have to offer a considerably cheaper service than it now provides.

Alleghany and **Eastern** have taken the lead in attempting to provide low-cost no-frills air service. **Eastern** reports considerable success in its efforts thus far, and it is likely that the rest of the group will be encouraged to offer similar service. But whether this plan is the answer to the problem posed by the automobile remains to be seen, particularly since much of Eastern's business may well be the business trade. In any case, the fact that some elements of the industry are experimenting in an effort to find answers to this problem suggests that sooner or later some combination of price and service will be found to crack the tough auto market.

Tough International Market

Some investors may be wondering if the international market is a better place in which to operate than is true on the domestic scene. Admittedly, the growth in tourist trade has been very pronounced in the post-war period and longer-term prospects remain highly favorable. True, also, that the longer average haul found in the international trade is a "natural" for the pure jet, yielding both higher revenues per passenger and squeezing the maximum efficiency out of the turbines. But serious problems still plague the international carriers and they are basically the same ones troubling the domestic lines.

Overcapacity, for example, has reached the critical point, particularly on the vital North Atlantic market. It is estimated that available seat miles on this important route will increase by about 45% in 1961, while traffic growth is seen at no better than 5%, if that high. Obviously, load factors will remain under severe pressure and the earnings picture is bleak.

● **Unlike the domestic carriers, which are all privately owned, the international group is a mixture of private and state-owned lines. Thus, the decisions made regarding scheduling and other operating matters are not necessarily related to economics but may well be responsive to political considerations. Quite obviously, the privately owned airlines have their work cut out for them when they attempt to compete against their subsidized rivals.**

● The international airlines are also struggling with the problem of stimulating growth. Unlike their domestic brethren, there is no cheaper surface competition to contend with. To induce more people to travel across the oceans, lower fares seem to be the only answer and it would appear that the international industry is moving in this direction. Longer range prospects for traffic growth may well be more favorable than those of the domestic scene. However, with the fierce rivalry existing between the multitude of international airlines, it is difficult to say with any degree of certainty that any individual company will fare particularly well.

Investment Approach to Group

Considering the nature of the industry and in view of its erratic profits performance in the past, it must be said plainly that airline stocks lack true investment characteristics. These are not the type of securities which you want to buy and put away. Rather, the airline shares fall into that class known as trading stocks, where essentially the timing of purchases and sales is all-important. In the light of their speculative nature and the market savy called for, airline securities are not suited for the average investor. The speculator, however, can have some fun with these stocks from time to time.

At present the group appears to be in an interesting position from a market point of view. Careful inspecton reveals that some fairly good buying has recently taken place in many issues in the group.

● It would appear that a substantial body of investment opinion believes that the industry is at the low point in its profits cycle currently and there is no place to go but up. The possibility of improving load factors and earnings beginning in 1962 and extending beyond is apparently one of the major factors influencing the revival of interest in the airline shares. If such developments do come to pass, it is logical that the hopes of the speculators should be rewarded. Among the stocks whch would participate in any major move by the airline shares, the most attractive current values appear to reside in **American, Eastern, Delta** and **United.**

Individual Companies

American operates a well balanced route structure and appears well situated to capitalize upon whatever growth lies ahead for the industry. Most of the company's equipment is good, although it has a fair number of turbo-prop planes which do not compare favorably when stacked against pure jet competition. American has not been able to capitalize upon its pioneer status as the first major carrier to inaugurate the jet age domestically; earnings have been unimpressive in recent years. However, a good deal of fat has now been trimmed away and the company appears ready to show to better advantage.

Eastern has fallen upon evil days in the last few years, reversing previous experience when it was one of the most profitable carriers in the industry. A complete shakeup is now apparently taking place within the company and it may well be ready to attempt a profits comeback. At least a speculative possibility exists that **Northeast** will be eliminated from the N. Y.-Florida market, which would redound to the advantage of both Eastern and National.

Delta has made a smooth transition from the piston into the jet age. The company has superior equipment and is well run in almost every regard. An excellent earnings year was just completed and prospects favor more of the same both over the near and longer term. This company could conceivably go the merger route on quite favorable terms.

United is now the largest domestic airline, as a result of its recent merger with Capital. Well-run and with an attractive fleet, United should continue to fly high. By being the first to offer Caravelle service in the United States, the company appears to have gone a leg up on its competitors. Of the group, this stock comes the closest to being an investment situation. END

Britain Acts To Revitalize Her Dwindling Power

(Continued from page 621)

The Common Market Move. The momentous decision of the British to seek membership in the Common Market followed the new austerity program. While negotiations regarding actual admission will be difficult and protracted, especially involving the problems of preferred Commonwealth imports into Britain, the decision has far-reaching implications. The political aspects are as important as the economic ones, especially with the need for Western solidarity in the face of the new freeze in the Cold War. But these ramifications are a subject for examination outside the scope of this article. **Suffice it to say that the "six-seven" split was a serious drawback to Free World unity and that the British attempt to merge with Euromart is a real political plus-factor for the entire Free World.**

The Commonwealth Gets a New Look. Economically, the importance of Commonwealth trading has been diminishing for quite a time, except for New Zealand and a few other spots, although Britain does still buy about 40% of Commonwealth exports. The Common Market presents an area for the much-needed spurring of British exports by providing more sales outlets for competitive products and will give a competitive impetus to sluggish sectors of the British economy. Since 1959, British exports have risen by only 12%, while Common Market exports are up about 30%.

The Lion Roars — "There'll Always Be An England"

Financially, the Pound Sterling would no longer be subjected to periodic crises and widespread speculation. Banking and other financial facilities in Britain, however, represent an area where there has been no lag behind Common Market members, and London would most probably become an even more important financial center, with short term Sterling raids a thing of the past. If the existing difficulties can be overcome—and it should be kept in mind that very few observers indeed would have guessed last year that Britain would actually begin to negotiate for Common Market membership this early—the merger of the Free Trade Area and Common Market which would result from Britain joining the latter would be beneficial to the U.K. and the West as a whole. (See Chart II.)

New Measures Bring Immediate Improvement

The effects of the fiscal and monetary program just described, the IMF drawing and the move to join the Common Market were almost immediately evident in a firming of the Pound Sterling to above the $2.80 level. Short positions in Sterling have been covered and short-term funds were no longer being withdrawn on maturity, as the 7% bank rate served as a sufficient incentive to keep balances in London. Leads and lags in payments, which have aggravated Sterling crises in the past with the buying of foreign currencies by British companies, could move into Britain's favor. Speculative pressures against Sterling have eased but have not as yet been changed to a condition of real confidence. This is reflected in the fact that few are as yet willing to place short-term funds in London's Treasury bills, without covering (selling, for instance, 90 day Sterling to protect vs. possible devaluation or a sharp drop in the Pound rate) in the forward market. The wide forward discount, equivalent to about 4% on an annual basis, practically cancels out the short term

interest differential between New York and London.

Some Continental funds, however, are being drawn to London and, if the Sterling and Common Market situations improve further, some outflow of funds from New York is also a possibility. Such a development might tend to put new pressures on the Dollar, thus demonstrating anew the close relationship of Sterling and the Dollar and the inherent problems presented by short term capital movements under the present international financial and payments structure.

What's Ahead?

To sum up the present condition and the prospects for the Pound: ● 1) no devaluation is imminent; ● 2) another exchange crisis has been successfully met, but only on a short term basis; ● 3) longer term difficulties still persist for Sterling, particularly the lag in productivity and economic growth, the excess of imports over exports, considerable liabilities to non-Sterling countries, the underlying payments deficit of the Sterling area and the wage-price problem at home;

● 4) A merger with the Common Market presents a potential solution to many of Britain's economic problems, if the Commonwealth difficulties can be overcome.

(A number of British firms are now accelerating plans to invest in Continental Europe, following the move of Imperial Chemical Industries to invest about $280 million over the next ten years in the Common Market.**)**

● 5) If negotiations with Euromart are successful, the possibility of a real Atlantic Union—including the U.S. and Canada—looms in the future, based on integrated management of the West's economies; ● 6) further revisions in the international financial mechanism in the direction of more monetary cooperation to overcome short term difficulties, such as the Basle Agreement, are necessary developments. But they should not be viewed as *substitutes* for attaining longer-run domestic and external economic balance.

A quote from the Bank of England Report for the year ended February 28, 1961, faces up to Britain's problem in the most direct manner: "... **The United Kingdom cannot afford to drop behind its competitors (which it has) in improving efficiency and keeping down costs, or to devote to domestic consumption too high a proportion of total resources. No schemes for international credit can alter these basic facts of economic life: it would be disastrous to allow any such schemes to obscure them.**"

It remains to be seen whether all this talk is translated into action—and the battle over whether a policy of restriction or expansion will be the eventual answer is still far from settled in Britain. But in any event, the era of Britain's economic isolation has come to a rather abrupt end—more through necessity than from choice. END

What Second Quarter Earnings Reports Reveal

(Continued from page 618)

tions. **Pepsi** continues to seek a more diverse product line with the announcement of its new "Teem" division to aid in the marketing of the lemon-lime drink of that name and other new beverage products. Management feels that by 1962 "Teem" sales will account for about 12% of the company total, and, unless promotional expenses are unduly high, further gains in Pepsi's sales and earnings appear forthcoming.

Can Basic Industrials Break Adverse Profit Margin Trend?

As results for more and more typical industrial concerns are released, lower sales prices and consequently reduced margins continue to be an outstanding feature. **Colgate-Palmolive, Cluett Peabody, Raytheon,** and **National Cash Register** were also among the many companies reporting second quarter gross about the same or higher than for the year-earlier similar period, but with profits per dollar of sales dipping below the 1960 quarter.

American Viscose experienced somewhat similar results, as lower tire, yarn and fabric prices, continuing intense competition and curtailed production all took their toll on the company's margins. **Kennecott Copper** was similarly affected by a reduction in copper prices, and **General Railway Signal** also suffered from reduced profitability. While other concerns, such as **American Tobacco** and **Alcoa,** were able to resist this trend during the recent June quarter, the problem of declining margins continues to be a serious one. Unless the trend begins to reverse itself during the remainder of the current year, earnings growth on the part of the basic industrials will no doubt continue to lag behind that of companies dealing in consumer goods and services, which on balance have been far superior in recent years. END

Insurance Stocks As Investments Today

(Continued from page 636)

change offer became known. Likely merger prospects selling below book value that are most frequently mentioned are Aetna Insurance (possibly to be absorbed by Aetna Life), Boston Insurance, Northern Insurance and Phoenix Insurance (possibly by Connecticut General).

Attractive Casualty Companies with Life Affiliates

Investment at this juncture, other than on merger speculation, should be restricted to high-quality old-line fire and casualty companies with life insurance subsidiaries, such as **U.S. Fidelity & Guaranty** (one of the few companies to report an improved profit margin for the first six months of 1961), which owns Fidelity & Guaranty Life Co.; **Continental Casualty** (which reported profitable underwriting in the first six months of 1961) with its 31% control of Continental Assurance; **Federal Insurance,** holding Colonial Life; **Hartford Fire** with its subsidiary Hartford Life; and **Insurance Company of North America** with its subsidiary Life Insurance Company of North America.

Factors That Cancelled Out Interest Rate Advance

From 1955 until the fall of 1960, the market action of life insurance stocks as a group was uninspiring. Similarly, the earnings of life insurance companies as a whole have also been unexciting. During this same period, however, interest rates, which prior to 1955 were a considerable influence on the industry's earn-

ings, continued to rise. Wall Street somehow overlooked the impact of the rising interest rate structure until about eight months ago. Thus, for four years, while earnings turned listless, stock prices remained dull.

Offsetting the impact of rising interest rates on life insurance earnings, from 1955 to 1959, was the unfavorable accident and health experience for the industry. Accident and health earnings play an important role in life insurance results. Meanwhile, after 1955, investors also began to fear the possible impact on life insurance earnings of a new federal insurance tax that was eventually passed in 1959 and applied to 1960 earnings. Another factor which dampened investor enthusiasm in 1959 was the practice by many companies of using earnings to strengthen their reserves because of the new law.

These Adverse Conditions Largely Nonrecurring

In the past eight months, Wall Street finally began to recognize that the factors that had been depressing earnings and stock price were largely nonrecurring and that, from 1961 on, life earnings should again feel the impact of rising interest rates. Today, a life insurance company can invest its premiums at 5% or better, while most of its policies in force have been issued at a net interest cost assumption of only 3%. The spread represents a company's profit margin and grows wider as investment portfolios roll over at higher yields.

In the meantime, life insurance has maintained its previous status as a notable growth industry. Insurance in force has risen almost 50% since 1955. In the 1960's, as family incomes continue to expand and the population increase in the younger adult age group makes its impact, insurance in force should continue to grow at its past rate of 10% a year.

More Attractive Companies

Despite substantial increases in price already this year, life insurance stocks as growth shares appear still to be fairly priced at about 22 times 1960 adjusted earnings. There are 1300 legal reserve life insurance companies in the United States, whereas as recently as 1950 there were only about 600. **But because of the competitive nature of life insurance and the fact that a new life company must operate in the red the first few years while it sets up necessary reserves and charges off the expenses of new policy acquisitions, the investor will do well to stay with the older, high-quality companies.** On a price times 1960 adjusted earnings basis, the following companies still look like fair values; **Gulf Life** at 16.6 times; **Jefferson Standard** at 18.8 times; also **Kansas City Life** at 15.6 times; **Life of Virginia** at 15.5 times; **Lincoln National** at 18.8 times and **Travelers** at 18.4 times.

Those companies already participating in the trend toward package policies of fire, casualty and life that appear interesting are **Aetna Life,** with its 61% control of Aetna Casualty & Surety; **Travelers Insurance;** and **Connecticut General** on the speculation it may soon enter the fire and casualty field.

In summary — The fire and casualty outlook is improving noticeably. Expense ratios are going down, automobile rates are coming more into line with recent experience and investment income is growing. Meanwhile, both life and fire and casualty premium volume continues to grow, stimulated by economic expansion, rising incomes, population growth and a greater security consciousness on the part of the public. END

The Individual Oil Companies — Domestic and Global

(Continued from page 629)

produced in our own refinery from our own crude oil. We have neither crude oil nor a refinery.

● "Thus, in a period of rising operating costs and expenses, your Company has been forced to rely almost exclusively on its marketing profits for dividend payments and plant expansions, while it has had to compete with integrated oil companies who have the broadly diversified profit bases of crude oil production, refining and petrochemicals, as well as marketing.

● "World-wide surplus of crude oil, price wars, and inflation have so changed our industry in recent years that a company the size of ours, engaged only in the marketing of conventional petroleum products, is seriously handicapped. Your management is convinced that if our Company remains as it is today, operating

only in the marketing branch of the industry, *ultimately its dividends would have to be substantially reduced.* [Italics added.]

● "Your Board of Directors, realizing its duty to protect your investment to the best of its ability, commenced studies of integrated oil companies in an effort to determine which of these companies your Company might join in order to give it the stability and growth potential which accompanies the operations of a successful fully integrated oil company. After a thorough study, your Board concluded that the greatest benefit to the stockholders would result from joining Standard Oil Company of California."

Earnings of International Companies

Profits of the largest American oil companies are, of course, affected not only by domestic developments but also by operations abroad. During the first half of this year, consumption of oil products outside the United States increased sharply, rising by some 8 to 9% from a year earlier. Roughly, foreign oil demand is about 900,000 barrels per day higher than a year ago. Western Europe has shown the most pronounced increase of any major foreign area with comsumption there rising by about 12%.

Although prices for oil products in most major consuming areas were lower than a year earlier, the marked improvement in consumption enables international companies to report good earnings in both the first and second quarters of this year.

● **Texaco,** which through good times and bad has amassed one of the best earnings records of any of the major oil companies, reported that its earnings rose 12% during the first half of the year to $1.61 per share. In the second quarter, the rate of increase accelerated to over 13% as the company earned 74¢ per share. The principal factor in Texaco's improvement was a pronounced increase of nearly 7.5%, or 100,000 barrels per day, in the world-wide crude oil production.

● **Socony-Mobil** also reported a very good first half year with earnings increasing 30% to $1.72 per share. Major benefits were achieved through a new efficiency program instituted late last year.

● **Standard Oil of California** reported that its earnings were about 7% higher than a year earlier, rising to $2.16 per share.

● **Standard Oil of New Jersey** experienced one of the best first half periods in its recent history. World-wide crude oil production and refinery runs of this industry giant were up 7.5% and 10%, respectively. Petrochemical and natural gas sales were a good deal higher than a year earlier. As a result of these improvements, Jersey's earnings increased 22% to $1.78 per share.

● In a development of importance to the future earning power of Jersey, the company recently completed construction of a new pipe line in Libya which will transport oil from its large Zelten field to the Mediterranean coast. Operations to fill the pipe line have been commenced and certain terminal facilities at the port on the Gulf of Sirte will be completed soon. The company is expected to commence actual exports of Libyan oil to world markets around the beginning of November.

● Net income of **Gulf Oil Corporation** increased about 9% to $1.64 per share. Management noted that the bulk of the increase in earnings was due to increased efficiency and higher production of both crude oil and natural gas. In its letter to stockholders, Gulf indicated that recent developments in Kuwait, had apparently been resolved without any serious damage to its interests there. It added that at no time during the crisis were Gulf's operations affected.

The Current Outlook

As the petroleum industry looks forward to the remainder of 1961, it knows it has considerable work cut out for it. It appears to be receiving some help from higher consumption, for, during July, demand is estimated to have been nearly 7% higher than in the same month of 1960. However, consumption of oil products has not been strong enough to stimulate an increase in prices. To the contrary, gasoline quotations in the Mid-Continent area declined contraseasonally early in August to a point about 1¢ per gallon below last year's price.

The softness of oil prices may well be responsible for a further erosion in the profits of many oil companies during the third quarter, unless it is corrected quickly. In taking note of this situation, Mr. Earl Baldridge, Chairman of Champion Oil and Refining, recently stated that his company "cannot anticipate last half net as favorable as in the final six months of 1960." Likewise, President Albert Nickerson of Socony-Mobil recently stated, "The price picture both here and abroad has created uncertainty about the outlook for the remainder of the year."

Whether or not the kind of improvement in prices that the industry appears to need does in fact materialize, there are still several companies which appears to be in a position to continue to register above-average earnings growth. Phillips Petroleum expects full year 1961 earnings to rise to new record levels and it is possible that the company will be able to increase its dividend. Texaco,, Louisiana Land, Murphy Corporation, Argo Oil each appears to be able to join Phillips in establishing new records. However, these and a few other companies may well prove to be exceptions to the general performance of oil companies. END

For Profit And Income

(Continued from page 641)

Champion Paper, Ford Motor, Fruehauf Trailer, General Foods, General Public Service, Gimbel Brothers, Glidden, Goodrich, Goodyear, Hercules Powder, International Paper Lerner Stores, Macy, Marine Midland, Maytag, Mercantile Stores, Pacific Lighting, Peoples Drug, Pillsbury, Pennsalt, Procter & Gamble, Quaker Oats, Rayonier, Schering, Manufacturing, Standard Brands, Texaco, Transamerica, United States Freight and United States Rubber.

Lagging

Current performance of the following stocks is relatively poor at this time: Air Control, American Cyanamid, Blaw-Knox, Cuban-American Sugar, Chain Belt, Conde Nast, Decca Records, Duplan, Dayco, Endicott-Johnson, General Baking, General Controls, Fram Corp., American Machine Foundry, Heyden Newport Chemical, Holland Furnace, Outboard

Marine, Barber Oil, Stanray, Columbia Broadcasting System, Packard Bell, Royal McBee and White Dental. END

AS I See It!

(Continued from page 609)

only by Mr. Chamberlain's umbrella. Already the West Germans, who fear the British, are saying — "Munich 1937 — Berlin 1961".

Clearly, this is not the time to follow the lead of Britain. It is too dangerous. We must look after our own interests, and as citizens we must insist that President Kennedy do so.

The country is demoralized as a result of the weakness shown by the Chief Executive, and fearful about his qualifications to see us through, based on the record of his Administration, which has not lived up to the promises he made when running for office.

What is he going to do about Berlin? Time is growing short—and the country is waiting impatiently for the answer.

Answers to Inquiries . . .

(Continued from page 648)

course of recapitalization or adjustment of arrears, etc., offering the holder the right to purchase a share of common stock at a particular price for a stated period of time. However, some warrants are without time limit and these are called perpetual warrants.

Warrants don't pay dividends. They have no claim on earning power or assets of a corporation.

Warrants purchased at an early stage of a bull market or at a time when the subject corporation's business is in an uptrend usually offer the best profits.

Warrants with a time limit have to be watched for if not sold or exercised they become worthless after the expiration date. Perpetual warrants are usually the best.

If you believe a common stock is going to advance and it has warrants, the latter offers greater speculative possibilities, with a smaller outlay of capital. Warrants rise and fall in mathematical relation to their common stock. Losses are larger and faster if warrants are purchased at a high price, particularly in a sharply declining market. Capital can deteriorate and disappear entirely if warrants are bought too high, too late and held too long in a bear market. Proper timing of purchase and sale is of the essence.

Speculative profits can be enormous if proper timing is followed. But we must emphasize that warrants are very risky and loss of capital invested can be complete and no income or dividends are received while held. Only those in a position to speculate should consider warrants.

The following are some warrants actively traded on the American Stock Exchange.

Tri-Continental Corp., a large general closed-end investment trust, offers holders of its warrants, the right to purchase 1.27 common shares at $17.76 a share and these warrants have no time limit. Market price of Tri-Continental's common stock was recently about 54¾ and the warrants were at 42¼.

Atlas Corp., another closed-end investment trust, gives holders of its warrants the right to purchase its common stock at $6.25 a share without time limitation. Atlas Corp. common stock is currently selling at about 3¾ a share and the warrants at 1⅞.

Allegheny Corp., a diversified investment company; its warrants entitle the holder to buy 1 share of Allegheny common at $3.75 and these are also without time limitation. The common stock is now around 10 and the warrants at 7½.

Armour & Co., meat packer, warrants entitle holders to purchase 1 common share at 17½. These warrants expire on December 31, 1964. The common stock is currently selling at about 51 and the warrants at 34. END

Book Review

The Economic Development of Libya

Report of a mission organized by the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT *at the request of the government of Libya*

When an economic survey mission organized by the World Bank arrived in Libya in early 1959, oil development there was still in the exploratory stage, and the principal economic problem seemed to be the country's lack of resources. By the time the mission came to write this report, oil had been discovered in considerable quantities, and Libya's economic outlook was radically changed. These events make the publication of this report particularly opportune, since it discusses the long-term possibilities opened up by the discovery of oil and their impact on the Libyan economy.

The mission's main task, however, was to appraise economic progress to date and to put forward specific recommendations for a general economic development program to be undertaken in the next five years.

In drawing up this program the mission proceeded on the assumption that while oil offers a long-term prospect of establishing a prosperous economy, it is unlikely in itself to provide employment for more than a small fraction of the Libyan people. The majority must therefore look to other occupations for their livelihood. The remainder of this book is devoted to an examination of policies and programs with that objective in view.

THE MISSION was composed of thirteen experts of nine different nationalities:

P. S. Narayan Prasad, *Chief of Mission*
E. Peter Wright, *Chief Economist*
T. D. Ahmad, *Advisor on Public Health*
D. S. Ferguson, *Advisor on Water Resources*
Kurt Krapf, *Advisor on Tourism*
Habib A. Kurani, *Advisor on Education*
Warren H. Leonard, *Advisor on Agricultural Production*
Franz Lutolf, *Economist*
W. Sidney McCann, *Mineralogist*
G. M. McKelvie, *Advisor on Transport and Public Utilities*
Zuhayr Mikdashi, *Research Assistant and Interpreter*
G. C. W. Chr. Tergast, *Agricultural Economist*
Wybold van Warmelo, *Advisor on Industry and Handicrafts*

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